



To: Department of Climate Change, Energy, the Environment and Water

Climate Friendly Submission

2026–27 Safeguard Mechanism Review

September 2026

Dear Safeguard Mechanism Review Team,

Climate Friendly welcomes the opportunity to contribute to the 2026–27 review of the Safeguard Mechanism.

Climate Friendly is a profit-for-purpose organisation driving land-sector decarbonisation to create healthy landscapes, thriving regional communities and productive agricultural enterprises across Australia.

As a leading carbon farming service provider, we partner with farmers, foresters, Traditional Owner groups and conservation organisations to develop and deliver integrated carbon projects. We have supported more than 200 projects across Australia that have generated more than 27 million ACCUs, representing approximately one-quarter of all land-sector carbon credits issued to date.

Climate Friendly strongly supports a broad suite of policies to accelerate emissions reduction across the economy, including on-site industrial decarbonisation, low-emissions technologies, green commodity markets, voluntary climate action and measures that reward emissions reductions throughout supply chains. Continued investment in these areas, including fostering a stable and effective carbon market, is critical to achieving Australia's emissions reduction targets.

Australia's emissions reduction framework should be understood as an interconnected system comprising direct sectoral decarbonisation plans, the Safeguard Mechanism, the ACCU Scheme, mandatory reporting and voluntary climate action. Together, these mechanisms help create transparency and mobilise investment in emissions reduction across different sectors of the economy. Climate Friendly has also made a separate submission regarding the future of Climate Active. We encourage the Government to consider these policy frameworks collectively, recognising that changes to any one component will influence investment incentives, emissions outcomes and market confidence across the broader system.

Climate Friendly strongly supports policies that prioritise on-site industrial decarbonisation. The industrial emissions reduction challenge is significant and must remain the primary focus of covered facilities. However, Australia cannot achieve its climate objectives without also investing in emissions reduction and carbon sequestration across the land sector, which currently accounts for around 20% of national emissions. Carbon farming projects represent one of the primary mechanisms available to mobilise and reward those outcomes. Sustained investment in both industrial and land-sector decarbonisation will be required to achieve Australia's long-term emissions reduction goals.

Carbon credits can support multiple outcomes, including compliance obligations, voluntary climate commitments, supply-chain insetting, product differentiation and investment in emissions reduction. Policy settings should avoid presupposing how a credit will ultimately be used and instead focus on maintaining the integrity of the underlying abatement activity. As part of the parallel consultation on the *Carbon Credits and Other Legislation Amendment (Integrity and Transparency) Bill 2026*, Climate Friendly has submitted that the ACCU Scheme legislation should not predetermine how ACCUs will ultimately be used, and ACCU Scheme language should be modernised to better reflect that carbon credits only become “offsets” when they are used in that manner.

As well as supporting direct decarbonisation in the land sector, ACCUs play an important complementary role in addressing emissions that cannot yet be eliminated and in mobilising cost-effective abatement across the economy. By actively considering the level of climate action taken by buyers, Climate Friendly's Buyer Integrity Framework reflects our view that ACCUs should complement, rather than substitute for, credible on-site emissions reduction.

Policy settings of the Safeguard Mechanism and interconnected policies should recognise the strong relationship between investment certainty, decarbonisation action and future ACCU supply. Both implementation of decarbonisation actions and the development of new carbon farming projects have long lead times and require substantial upfront investment, alongside long-term confidence in the stability of policy settings. Frequent or premature policy intervention risks undermining investment confidence, delaying decarbonisation and carbon farming project development, constraining our ability to meet economy wide decarbonisation goals.

Climate Friendly's overarching view is that Australia should focus on expanding the total pool of credible emissions reduction opportunities across the economy. Industrial decarbonisation, carbon farming, voluntary climate action and emerging environmental markets should be viewed as complementary pathways that collectively support Australia's emissions reduction goals rather than as competing alternatives.

Climate Friendly's submission is guided by three overarching principles:

1. Policy stability and certainty are essential to support long-term investment.
2. The Safeguard Mechanism and broader carbon market should continue to deepen and expand economy-wide decarbonisation incentives.
3. Policy settings should better enable on-site emissions reduction while maintaining overall emissions reduction outcomes.

The recommendations that follow are intended to advance these objectives while maintaining confidence in both the Safeguard Mechanism and the ACCU Scheme.

A summary of our key observations and recommendations is provided below.

Retain the core architecture of the Safeguard Mechanism

Climate Friendly supports the Government's preliminary assessment that the Safeguard Mechanism is broadly operating as intended and remains on track to achieve its legislated 2030 outcomes. The first two years indicate that the declining-baseline framework is functioning as designed. Given the inherent lag between policy signals, investment decisions and emissions outcomes, there is currently limited basis for fundamental changes to the mechanism.

Any post-2030 reforms should be informed by realistic assessments of deliverable ACCU supply, achievable on-site emissions reduction and practical supply constraints. High-integrity ACCUs should continue to support credible industrial decarbonisation rather than substitute for avoidable emissions.

Recognising the interaction between the Safeguard Mechanism, a reformed Climate Active and the ACCU Scheme

The Safeguard Mechanism and the ACCU Scheme operate as an integrated emissions reduction framework. On-site industrial abatement, Safeguard Mechanism Credits and ACCUs each mobilise verified abatement in different parts of the economy. A credible voluntary climate action framework, such as a reformed Climate Active program or equivalent successor, would complement this system by encouraging voluntary action and supporting investment in emissions reduction beyond Safeguard-covered facilities.

Any reforms to the Safeguard Mechanism or voluntary climate action frameworks should be considered alongside their implications for the ACCU Scheme and long-term investment in land-sector emissions reduction.

Existing constraints on future ACCU supply reduce the need for market intervention and restrictions at this time

Climate Friendly's central concern with the review is that policy discussions remain heavily focused on projected demand and theoretical ACCU supply without sufficient regard to what can be delivered in practice.

Significant barriers to carbon farming project development, investment and delivery already constrain future ACCU supply. These constraints create a natural limit on ACCU availability and reduce the need for additional market restrictions. Measures such as caps, discounting, vintage limits or differentiated treatment of domestic units should be assessed against realistic supply assumptions informed by experience within the carbon project sector. At this point, we do not consider any restrictions are required due to the existing supply limitations. If such measures are to be introduced in the future, we consider that they require a long lead time to enable organisations to transition.

Policy interventions should be well-justified, credit-agnostic, and applied to offsets not insets

Policy should assess ACCUs and SMCs according to the verified abatement they represent rather than assumptions about how they will be used. Current policy discussions often characterise ACCUs as offsets and SMCs as inherently representing on-site abatement. In practice, either instrument may support offsetting or insetting outcomes depending on who acquires and surrenders them. Any limitations on offset use within the Safeguard Mechanism should therefore be applied consistently, based on end use, and supported by a clear environmental integrity rationale.

Sequestration ACCUs provide a distinct benefit through the removal of carbon dioxide from the atmosphere rather than solely avoiding or reducing future emissions. Policy settings should recognise this contribution and avoid measures that unnecessarily discount the role of sequestration projects in achieving Australia's long-term climate objectives.

Government support should be delivered across the economy

ACCU project development is often constrained by access to capital, method availability, development costs, regulatory timeframes and uncertainty regarding future carbon values.

Government support for industrial decarbonisation should complement, rather than crowd out, investment in proven and scalable land-sector abatement. A durable Safeguard Mechanism should support both industrial transformation and broader economy-wide investment in emissions reduction.

We welcome the opportunity to discuss these recommendations and the supporting analysis with the Department.

Kind regards,

Skye Glenday

Chief Executive Officer

Climate Friendly

Climate Friendly's Buyer Integrity Framework

Climate Friendly is a profit-for-purpose organisation driving land-sector decarbonisation to create healthy landscapes, thriving regional communities and productive agricultural enterprises across Australia. Our long-term vision is for a productive, sustainable land sector that contributes to zero net emissions, a nature positive Australia, and reconciliation by 2050.

On the crucial issue of industrial decarbonisation, Climate Friendly is committed to working with mission-aligned companies in an economy-wide transition to Net Zero emissions by 2050.

While playing an important role in the transition from fossil fuels, a carbon market should not be used to delay or replace a company's effort to reduce emissions. As such, Climate Friendly has developed an integrity framework for future buyers of ACCUs generated through our projects. The framework establishes a set of expectations by which buyers can demonstrate that their use of carbon credits supports, rather than undermines, climate action.

Under this framework, Climate Friendly will sell ACCUs to entities with a credible decarbonisation strategy, and where the ACCUs are not being used to delay or replace its effort to reduce emissions. The framework supports responsible buyer engagement, protects the integrity and reputation of land-sector abatement, and helps ensure that ACCU demand strengthens, rather than weakens, investment in both industrial decarbonisation and carbon farming.

An overview of key criteria assessed as part of Climate Friendly's buyer integrity framework is provided below.

Rating Criteria

Minimum Standards

Disclosures

- Sustainability Report
- Scope 1 & 2 Disclosure
- Scope 3 Disclosure
- Detailed Disclosures
- Independent Audit

Accountability

- Reporting Framework
- Sustainability Membership
- Other Accreditation
- Sustainability-linked Loan
- ESG-Compensation

Commitment

- Net Zero
- Published Baseline Year
- Interim Short-term Target
- Interim Other Target
- SBTi-Aligned

Fossil Fuel Exposure

- No New Thermal Coal
- No New Oil & Gas
- No Existing Thermal Coal
- No Existing Oil & Gas

Performance

- Carbon Neutrality
- Green Energy
- YoY Disclosures
- S1 or S2 Reduction
- Credit Retirement

No Adverse Actions

- National Enforcement Actions
- Multiple Enforcement Actions
- Region Enforcement Action
- Civil Suit Prosecutions
- Adverse Media

What 'Exceeding Standard' looks like...



What 'Not meeting Standard' looks like...



Summary of recommendations

This section summarises Climate Friendly's recommendations. The remainder of the submission provides the supporting rationale and evidence, organised according to the main themes of the consultation paper: progress to 2030; emissions-reduction technologies; domestic and international carbon units; compliance flexibility; cost containment; trade exposure and carbon leakage; sector-specific issues; scheme coverage; administrative matters; and the Safeguard Mechanism's contribution to Australia's 2035 target.

Tracking progress to 2030

Recommendation 1: Retain the core architecture and current 2030 settings of the Safeguard Mechanism. Post-2030 settings should be informed by realistically deliverable ACCU supply, feasible onsite emissions reductions, expected production pathways and the investment lead times required to deliver both.

Emissions reduction technologies

Recommendation 2: Maintain a non-prescriptive Safeguard Mechanism that allows facilities to use the most effective combination of onsite emissions reduction, ACCUs, SMCs and compliance flexibility. Complementary government support should address demonstrated technology, infrastructure, financing and delivery barriers without deferring the emissions-reduction task.

Recommendation 3: Extend decarbonisation support to the land sector. Government policies and funding programmes should support method development, project-enabling finance, data infrastructure and measures that reduce development costs, approval timeframes and project delivery risks for high-integrity land-sector carbon projects.

Domestic offsets

Recommendation 4: Any caps, discounting, method restrictions or differentiated treatment of ACCUs should be supported by a demonstrated environmental integrity, market or policy rationale and informed by realistic assessments of ACCU and SMC supply, demand and market impacts. Existing constraints on deliverable ACCU supply already provide a natural limitation on credit availability, and additional restrictions may undermine investment in future abatement.

Recommendation 5: Across the interconnected policy framework, ACCUs should be recognised as carbon credits that may serve multiple end uses, including offsetting, insetting, compliance and voluntary climate action. Policy terminology should avoid presuming a particular end use where this creates market confusion or unintended consequences for confidence in the ACCU Scheme.

Recommendation 6: Apply consistent principles to ACCUs and SMCs based on their end use rather than their unit type. Any restrictions on offset use should apply consistently where ACCUs or SMCs are purchased and surrendered by an entity other than the generator of the underlying abatement. Any differential treatment should be supported by a demonstrated environmental integrity benefit rather than the unit type alone.

Recommendation 7: Improve forward market transparency without duplicating reporting. Improve information on planned onsite abatement and expected ACCU and SMC demand. Any carbon abatement plan should utilise existing Safeguard, NGER and climate-disclosure reporting where possible, protect commercially sensitive information and avoid duplicate reporting requirements.

International units

Recommendation 8: Maintain domestic abatement as the priority and only permit international units that meet equivalent integrity, transparency and national-accounting requirements.

Recommendation 9: Enable two-way international market access. Any future international framework should allow eligible international units to enter Australia while also enabling ACCUs to access compatible international markets.

Recommendation 10: Assess domestic market impacts before permitting international units for Safeguard compliance. Assess the effects on ACCU supply, market liquidity, forward prices and Australian abatement investment before allowing

international units to be used for compliance.

Banking

Recommendation 11: Retain banking beyond 2030 to reward early action and investment. Publish SMC issuance and holdings by vintage and holder category so that carry-over between target periods can be monitored through observable data rather than assumed.

Borrowing

Recommendation 12: Borrowing should not continue beyond 2030 and should not permit a compliance obligation to be transferred across a target-period boundary.

Multi-year monitoring

Recommendation 13: Limit post-2030 multi-year monitoring to exceptional circumstances. Retain the general prohibition on multi-year monitoring periods extending beyond 2030. Any exception should be confined to committed and funded emissions-reduction projects with verifiable milestones, minimum annual compliance requirements and an equivalent cumulative emissions outcome.

Cost containment measure

Recommendation 14: Clarify the role of the Cost Containment Measure as a mechanism of last resort that provides compliance cost certainty during periods of genuine market stress. Its price, available volume and release conditions should be transparent and calibrated so that the measure does not undermine incentives for onsite emissions reduction or investment in new ACCU supply.

Border Carbon Adjustment

Recommendation 15: Apply a Border Carbon Adjustment where there is clear evidence of carbon-leakage risk, reliable embedded-emissions data and practical administrative feasibility. Any related changes to trade-exposed baseline assistance should be transparent, prospective and implemented only once the adjustment is operating effectively.

Coverage and coverage threshold

Recommendation 16: Align coal facility baseline arrangements with those applying to other sectors after 2030, and progressively require direct measurement of material fugitive methane emissions to support accurate baseline setting and emissions reporting.

Recommendation 17: Progressively expand Safeguard Mechanism coverage following 2030, with a pathway towards alignment with the broader NGER reporting threshold of 25,000 tCO₂-e, having regard to administrative burden, proportionality and emissions-reduction benefit. At a minimum, the existing 100,000 tCO₂-e threshold should decline consistently with the applicable baseline decline rate so that successful emissions reduction does not automatically remove facilities from the mechanism.

Safeguard share of the 2035 target

Recommendation 18: Set a transparent, ambitious and deliverable Safeguard Mechanism contribution to Australia's 2035 emissions reduction target. Retain an objective proportional-share approach informed by feasible onsite abatement, realistic ACCU and SMC supply, production assumptions and the investment decisions required for delivery.

Decline rates after 2030

Recommendation 19: Establish a clear and predictable post-2030 baseline decline trajectory aligned with the 2035 target and informed by feasible onsite abatement, realistic unit supply and investment lead times. The emissions reduction task should be distributed progressively across the period rather than concentrated in the final years before 2035.

Detailed Responses to Questions

Retain the core architecture to 2030 and base future policy decisions on realistic ACCU supply projections

Recommendation 1: Retain the core architecture and current 2030 settings of the Safeguard Mechanism. Post-2030 settings should be informed by realistically deliverable ACCU supply, feasible onsite emissions reductions, expected production pathways and the investment lead times required to deliver both.

Rationale: Climate Friendly supports the Government's preliminary assessment that the Safeguard Mechanism is broadly operating as intended and remains on track to achieve its legislated 2030 outcomes. The first two years indicate that the declining-baseline framework is functioning. However, there is limited basis for making fundamental changes to the mechanism, considering the lag time for policy signals to influence investment and emissions; and that the mechanism has only been in place for a short period of time.

Climate Friendly therefore supports retaining the core architecture and current 2030 settings. Any changes before 2030 should be limited to targeted implementation matters supported by clear evidence that an adjustment is required to achieve the legislated outcomes.

Climate Friendly's central concern is that policy discussions may place undue weight on theoretical ACCU supply without sufficient consideration of what can be delivered in practice. This creates a risk that future ACCU availability could be overstated, leading to policy decisions that assume greater levels of offset use than may be achievable within relevant compliance periods.

Existing project development, investment and delivery constraints already place practical limits on future ACCU supply. These constraints provide a natural check on ACCU availability and should be considered before introducing additional market interventions such as caps, discounting or differentiated treatment of ACCUs and SMCs.

Future assessments of ACCU supply should consider:

- **Project delivery realities**, including the time required for project development, implementation, monitoring, audit and credit issuance.
- **Differences between methods**, recognising that carbon methods have different development timelines, issuance profiles and levels of market maturity.
- **The distinction between projected issuance and market availability**, noting that some ACCUs may be committed under existing contractual arrangements or retained for voluntary climate action, inseting or other purposes.
- **Method development and approval pathways**, recognising that future supply dependent on methods that are still under development carries uncertainty and should be treated accordingly.
- **Investment conditions**, including how policy stability and investor confidence influence the willingness of landholders and project developers to commit capital to future supply.

Policy settings should therefore be informed by realistic assessments of deliverable supply and the investment conditions necessary to maintain future project development. This is particularly important for the post-2030 period, where investment decisions made today will influence the availability of future domestic abatement.

Better align Safeguard flexibility and Government support with the delivery of onsite emissions-reduction projects

Recommendation 2: *Maintain a non-prescriptive Safeguard Mechanism that allows facilities to use the most effective combination of onsite emissions reduction, ACCUs, SMCs and compliance flexibility. Complementary government support should address demonstrated technology, infrastructure, financing and delivery barriers without deferring the emissions-reduction task.*

Rationale: Climate Friendly supports stronger onsite emissions reduction wherever technically and economically feasible. As the next phase of industrial decarbonisation is likely to involve more complex, capital-intensive and longer-term projects, facilities will require time to assess opportunities, complete feasibility studies, secure finance and approvals, and construct and commission new infrastructure.

The Safeguard Mechanism should therefore remain non-prescriptive and allow facilities to determine the most effective pathway for meeting declining baselines. ACCUs, SMCs, banking and other flexibility mechanisms can support compliance while industrial emissions-reduction projects are developed, but should not become a substitute for a credible onsite investment pathway.

Complementary Government support should address barriers that the Safeguard carbon price cannot resolve alone, including:

- Immature or commercially unproven technologies;
- Common-user infrastructure requirements;
- Access to capital for high-cost projects;
- Lengthy approval and construction periods;
- Exposure to international competitors without equivalent carbon constraints; and
- Insufficient demand for lower-emissions products.

Extend decarbonisation policy and investment support to Australia's land and agricultural sectors

Recommendation 3: *Extend decarbonisation support to the land sector. Government policies and funding programmes should support method development, project-enabling finance, data infrastructure and measures that reduce development costs, approval timeframes and project delivery risks for high-integrity land-sector carbon projects.*

Rationale: Government support for emissions-reduction technologies is focused principally on large industrial facilities. Climate Friendly acknowledges that the industrial emissions-reduction task is challenging and significant. However, Australia's land and agricultural sectors is responsible for around 20% of Australia's emissions. It follows that industrial facilities *and* the land sector must both reduce emissions, with policy support appropriate to the distinct barriers faced by each sector.

Carbon farming projects represent onsite decarbonisation in the land sector. These projects require substantial investment to reduce emissions and increase carbon sequestration. They support changes to land management, agricultural practices, vegetation management and fire management that generate verified emissions reductions and removals.

The land and agricultural sectors face specific barriers that the ACCU Scheme's carbon-price signal cannot resolve on its own and that are not adequately addressed through existing decarbonisation policies and funding programs:

- Limited access to upfront project-development capital;
- Long periods between initial investment and first ACCU issuance;
- Uncertainty regarding future ACCU demand and value;

- Delays in developing and approving new ACCU methods;
- High data, monitoring, assurance and regulatory costs;
- High transaction costs which constrain participation of smaller project sizes;
- Limited capacity for individual land managers to manage complex project requirements; and
- The absence of equivalent policy incentives for reducing agricultural emissions.

As stated above, these barriers and long project-development timeframes constrain how quickly land-sector potential can be implemented and verified, generating critical ACCU supply. Projects initiated following this review are unlikely to provide material ACCU supply before 2030. Government policy must therefore create the conditions for investment now if land-sector projects are expected to contribute to the 2030 to 2035 emissions-reduction period.

Support should include:

- Timely development and approval of credible ACCU methods;
- Finance for project feasibility and establishment;
- Improved national environmental and land data;
- Reduced duplication in regulatory and assurance requirements;
- Support for landholder participation and project aggregation; and
- Stable, long-term demand signals for high-integrity domestic carbon credits.

Government support for industrial onsite abatement should be additional to targeted funding of land-sector decarbonisation. Both are required to meet Australia's emissions-reduction targets.

Existing constraints means restrictions on ACCU use are not currently warranted. Any future limitations should be evidence based and introduced with sufficient lead times for organisations to adjust

Recommendation 4: *Any caps, discounting, method restrictions or differentiated treatment of ACCUs should be supported by a demonstrated environmental integrity, market or policy rationale and informed by realistic assessments of ACCU and SMC supply, demand and market impacts. Existing constraints on deliverable ACCU supply already provide a natural limitation on credit availability, and additional restrictions may undermine investment in future abatement.*

Rationale: Climate Friendly supports onsite emissions reduction wherever technically and economically feasible. However, ACCU use is not, by itself, evidence that a facility is delaying feasible onsite abatement. Before introducing restrictions, Government should identify the specific policy objective, demonstrate the additional onsite emissions reduction expected, and establish that this reduction is technically available, commercially viable and deliverable within the relevant compliance period.

Importantly, many industrial decarbonisation investments involve long planning and delivery timeframes, including feasibility assessment, technology selection, financing, regulatory and other approvals, procurement and construction. ACCUs and SMCs allow facilities to remain accountable for residual emissions during this transition period while longer-term emissions reduction projects are planned and implemented. Restricting access to compliance options does not necessarily accelerate these underlying investment and implementation timelines.

Market interventions may also have unintended consequences. For example, modelling by the EY Net Zero Centre indicates that access to ACCUs can reduce projected system-wide abatement costs by more than 60%, while enabling stronger baseline reductions. Its central scenario estimates cumulative cost savings of more than \$240 billion to 2050 compared with a scenario without access to ACCUs.

Caps on ACCU use could increase compliance costs, particularly for sectors with limited near-term abatement options. Discounting could increase compliance costs without necessarily increasing onsite abatement. Vintage restrictions could reduce market liquidity, create compliance cost volatility and increase the risk of price shocks. Differential treatment of ACCUs and SMCs could redirect demand between different forms of domestic abatement without necessarily increasing total emissions reduction.

This distinction is important because ACCUs generated through land-sector carbon farming projects often provides both climate mitigation and broader public benefits. Alongside verified emissions reductions and removals, these projects can support biodiversity, landscape restoration, agricultural resilience, regional economies and Indigenous-led land management. Where policy settings favour one form of verified abatement over another without a demonstrated environmental integrity rationale, they may alter the distribution of investment across the economy while reducing support for these wider environmental, social and regional outcomes.

Government should therefore assess whether each option is likely to deliver additional emissions reduction beyond that already required under declining baselines and consider its effects on realistic supply and demand, market liquidity, existing holdings and contractual arrangements, land managers, and future domestic abatement investment.

As discussed above, practical constraints already influence the availability of future ACCU supply. Policy settings should therefore be informed by realistic assessments of deliverable supply and the investment conditions necessary to support future project development. This is particularly important for the post-2030 period, where investment decisions made today will shape the availability of domestic abatement over the following decade.

For land managers, policy uncertainty affects project feasibility, financing, contract structures and willingness to enter long-term delivery and permanence obligations. Carbon farming projects often require substantial upfront investment and intergenerational planning horizons before emissions outcomes are realised. Any restriction should therefore proceed only where Government demonstrates that the resulting emissions reduction or integrity benefit outweighs the potential impacts on market operation, investment confidence and future domestic abatement supply.

Distinguish carbon credits from their end use

Recommendation 5: Across the interconnected policy framework, ACCUs should be recognised as carbon credits that may serve multiple end uses, including offsetting, insetting, compliance and voluntary climate action. Policy terminology should avoid presuming a particular end use where this creates market confusion or unintended consequences for confidence in the ACCU Scheme.

Rationale: The ACCU Scheme is designed to incentivise and verify emissions reduction and carbon sequestration activities. An ACCU represents a verified unit of abatement, but the eventual use of that unit may vary depending on the objectives of the holder.

ACCUs may be:

- Held or traded as an environmental asset;
- Retired as part of voluntary climate action;
- Used as an inset by the landholder or business that generated the abatement;
- Transferred within a value chain to support supply-chain decarbonisation outcomes; or
- Surrendered to compensate for emissions arising elsewhere, including under the Safeguard Mechanism or a voluntary emissions reduction framework.

Because ACCUs can serve multiple end uses, policy terminology should distinguish between the carbon credit itself and the way it is ultimately used. Referring to ACCUs exclusively as "offsets" may inadvertently imply a particular end use, when many ACCUs are retained, inset, traded or retired for other purposes.

Government communications should therefore use terms such as "ACCU" or "carbon credit" when referring to the unit and the verified abatement it represents, and reserve terms such as "offset" and "inset" for circumstances where the end use of the credit is being discussed.

Within the Safeguard Mechanism review, the relevant policy question is how credits may be used to meet compliance obligations and whether any limitations should apply to that use. This should be distinguished from questions regarding the integrity of the underlying abatement activity, which are governed through ACCU Scheme methods, integrity standards, assurance requirements and regulatory oversight.

This distinction is also increasingly relevant beyond the Safeguard Mechanism. As organisations seek to achieve emissions reductions across operations and supply chains, carbon credits are being used for a wider range of purposes, including supply-chain decarbonisation and voluntary climate action. Recognising the different potential uses of ACCUs can support clearer policy design, improve market understanding and help maintain confidence in both the ACCU Scheme and broader emissions reduction frameworks.

Note: Climate Friendly has also recommended in its submission on the Carbon Credits and Other Legislation Amendment (Integrity and Transparency) Bill 2026 that this distinction be reflected in carbon farming legislation. Similarly, Climate Friendly's submission on the future of Climate Active recommends recognising carbon credits as instruments that may support a range of credible emissions reduction outcomes, including offsetting, insetting and voluntary climate action.

Apply consistent rules to ACCUs and SMCs according to their use

Recommendation 6: *Apply consistent principles to ACCUs and SMCs based on their end use rather than their unit type. Any restrictions on offset use should apply consistently where ACCUs or SMCs are purchased and surrendered by an entity other than the generator of the underlying abatement. Any differential treatment should be supported by a demonstrated environmental integrity benefit rather than the unit type alone.*

Rationale: ACCUs and SMCs are generated under different frameworks. ACCUs represent verified emissions reduction or carbon sequestration from eligible carbon projects. SMCs are issued when a Safeguard facility performs below its applicable baseline.

These differences justify distinct project, monitoring, reporting and issuance arrangements. However, they do not necessarily justify different treatment when units are used to meet compliance obligations.

The relevant distinction is not how a unit was created, but how it is ultimately used.

For example, an SMC retained by the facility that generated it reflects onsite performance below that facility's baseline. However, where that SMC is sold and surrendered by another facility, the purchasing entity is relying on emissions outcomes generated elsewhere. In that circumstance, the SMC performs a compliance function broadly comparable to a purchased ACCU.

Policy should therefore distinguish between:

- Onsite abatement undertaken by a facility;
- Units generated and retained by the entity responsible for the underlying abatement;
- Units purchased from another entity; and
- The surrender, transfer, retention or cancellation of those units.

This does not mean ACCUs and SMCs must be treated identically in every circumstance. However, any differential treatment should be supported by a demonstrated environmental integrity benefit or clear policy objective rather than the unit type alone.

ACCUs can represent emissions avoidance, emissions reduction or carbon sequestration, while SMCs reflect performance below a facility baseline. Carbon sequestration projects provide the additional benefit of removing carbon dioxide from the atmosphere and can deliver broader environmental, agricultural, biodiversity and regional co-benefits. These distinctions may be relevant to particular policy objectives. However, where ACCUs and SMCs are purchased from another entity and surrendered for compliance, any difference in treatment should be supported by a demonstrated environmental rationale rather than an assumption that one unit type is inherently preferable to another.

Favouring purchased SMCs over ACCUs solely on the basis of unit type could redirect investment between different forms of domestic abatement without necessarily increasing overall emissions reduction. It could also reduce investment in land-sector carbon projects, which often generate verified emissions outcomes alongside biodiversity, landscape resilience, agricultural productivity, Indigenous participation and regional economic benefits.

At a minimum, where ACCUs or SMCs are purchased from another entity and surrendered for compliance, equivalent end-use principles should apply unless Government demonstrates a material and relevant difference that justifies alternative treatment.

Improve forward market transparency without duplicating reporting

Recommendation 7: *Improve forward market transparency without duplicating reporting. Improve information on planned onsite abatement and expected ACCU and SMC demand. Any carbon abatement plan should utilise existing Safeguard, NGER and climate-disclosure reporting where possible, protect commercially sensitive information and avoid duplicate reporting requirements.*

Rationale: Improved transparency of planned industrial decarbonisation activities would help Government and market participants understand if market participants are over-relying on ACCUs to meet their safeguard obligations, without investing in on-site emission reductions. It would also help with market planning, improving understanding of when onsite reductions are expected and when demand for ACCUs and SMCs may arise. This is important because investment in industrial and land-sector abatement must occur several years before the resulting emissions reductions or credits are delivered.

However, carbon abatement plans should not create another standalone reporting framework. Government should first identify information available through the Safeguard Mechanism, NGER reporting and corporate climate disclosures, and only require additional information where a material gap remains.

Any requirement should distinguish:

- Expected onsite emissions reductions;
- Major investment and commissioning milestones;
- Anticipated SMC generation, banking and surrender;
- Anticipated ACCU demand; and
- Material uncertainties affecting delivery.

These distinctions are necessary because a facility may pursue onsite reduction while also banking SMCs, purchasing units or using ACCUs during project construction and commissioning.

Information should be sufficiently standardised to support credible aggregate and sector-level forecasts. However, public reporting should not expose commercially sensitive information on technology choices, capital expenditure, procurement strategies, unit holdings or indicative prices.

Detailed information could be provided confidentially to Government or the Regulator, with aggregated forecasts published for the market. Government reporting should cover anticipated onsite abatement, expected ACCU and SMC demand, SMC issuance and holdings, delivery timeframes, and differences between forecast and actual outcomes.

Forward demand information should also be assessed against realistic, method-specific supply projections, not theoretical abatement potential or registered-project counts. Carbon abatement plans should fill a demonstrated information gap and provide actionable information without duplicating existing reporting requirements.

Retain the priority for high-integrity domestic abatement

Recommendation 8: *Maintain domestic abatement as the priority and only permit international units that meet equivalent integrity, transparency and national-accounting requirements.*

Rationale: Domestic abatement should remain the priority for Safeguard compliance. International units should only be considered where their emissions reductions are robustly verified, recognised towards Australia's international commitments and protected against double counting. Applying standards equivalent to those required for ACCUs is necessary to maintain environmental integrity and confidence in the Safeguard Mechanism.

Develop a two-way framework for international market connectivity

Recommendation 9: *Enable two-way international market access. Any future international framework should allow eligible international units to enter Australia while also enabling ACCUs to access compatible international markets.*

Rationale: International connectivity should not focus solely on importing lower-cost units into Australia. A balanced framework should also allow for export of ACCUs and enable access to compatible international markets. This would support Australian abatement investment while promoting consistent integrity and accounting standards across markets.

Assess domestic market impacts before introducing international units

Recommendation 10: *Assess domestic market impacts before permitting international units for Safeguard compliance. Assess the effects on ACCU supply, market liquidity, forward prices and Australian abatement investment before allowing international units to be used for compliance.*

Rationale: Access to international units could reduce demand for ACCUs and weaken the long-term price signal required to finance new Australian projects. Before introducing international units, Government should assess their likely volume, timing and price, and the consequences for domestic market liquidity, land-sector investment and the supply required for the 2030 to 2035 period. Any access should be phased and reviewed against actual market impacts.

Retain banking beyond 2030 and make carry-over observable

Recommendation 11: *Retain banking beyond 2030 to reward early action and investment. Publish SMC issuance and holdings by vintage and holder category so that carry-over between target periods can be monitored through observable data rather than assumed.*

Rationale: Banking rewards facilities that reduce emissions earlier than required. Removing it would mean a facility gains nothing from acting ahead of its baseline, which would defer abatement to the compliance deadline and concentrate demand into surrender windows. Both outcomes work against the objectives of the mechanism.

Climate Friendly accepts that carry-over is accumulating at present. In 2023-24, 8.31 million Safeguard Mechanism Credits were issued while 1.39 million were surrendered, so approximately 6.9 million units were added to the banked stock in a single year. Issuance exceeded total ACCU surrenders across the scheme in the same year.

Climate Friendly believes current trends of banking credits may be short term. Australia's emissions projections to 2035 have Safeguard Mechanism Credit generation falling to around 3 million units in 2035 and 1 million by 2040 as baselines tighten and fewer facilities sit below them. The stock available to carry into a subsequent target period therefore peaks in this decade and declines thereafter. The policy response should be calibrated to a diminishing volume rather than a growing one.

Current holdings behaviour is also consistent with the mechanism's intent rather than with arbitrage. At the June quarter of 2025, 6.9 million Safeguard Mechanism Credits were held, and 88 per cent were held by the responsible emitter they were issued to or a related entity. Credits are largely being retained against the holder's own forecast liability. This indicates that credit accumulation represents a sensible response to manage future liabilities. In short, banning banking would be too blunt a response to a volume that is already set to decline. The current rate of accumulation is significant; however Government should be able to observe it and act if it becomes excessive rather than leave it unmonitored.

The residual policy concern is excessive carry-over between target periods. That question cannot currently be answered from published data. The Clean Energy Regulator publishes Safeguard Mechanism Credit holdings by market participation category but not by vintage, so the age profile of the banked stock is not visible. Publishing vintage-level data would allow carry-over to be observed and any future response calibrated to evidence, would improve forward visibility of compliance demand, and would require no new reporting obligation on facilities.

Borrowing should not continue beyond 2030

Recommendation 12: *Borrowing should not continue beyond 2030 and should not permit a compliance obligation to be transferred across a target-period boundary.*

Rationale: Borrowing is the only flexibility mechanism in the scheme that produces no abatement outcome. A trade-exposed baseline adjustment responds to a demonstrated cost impact. A multi-year monitoring period accommodates the commissioning timeline of an actual project. Borrowing does neither. It moves the compliance date and nothing else.

Its cost falls on supply. Deferred compliance is deferred demand, and given the lag time associated with ACCU Scheme project development, the demand signal in the second half of this decade impacts the supply of land-sector ACCUs after 2030. The Clean Energy Regulator's analysis of project development timeframes concludes that almost all projects contributing to Australia's 2030 emissions reduction target have already commenced development. Demand withheld today does not return as abatement later. It removes the investment signal for supply that must be committed now if it is to exist in the next target period.

The structural objection is sharpest at the 2030 boundary. From 2031 baselines are set in five-year blocks aligned to Australia's Nationally Determined Contribution. Borrowing across that boundary would allow an obligation arising in one target period to be discharged using headroom belonging to another. That cannot be reconciled with the way the targets are constructed, and it transfers risk into the period in which the abatement task is steepest.

Borrowing also compounds. A facility that borrows and borrows again in the following year has deferred twice while its baseline continues to decline. The eligibility conditions test a facility's position in a single year rather than its trajectory.

Climate Friendly accepts that current policy settings limit use of the borrowing mechanism. The interest applied to borrowed units has risen from two per cent to ten per cent, so a facility surrenders 1.1 units of baseline headroom in the following year for each unit borrowed, and at current and forecast prices that makes deferral more expensive than acquiring units. This policy feature is appropriate, but it is not a reason to retain the borrowing mechanism. The interest rate is an administrative setting that can be reduced without primary legislation, and a scheme design that relies on a discretionary parameter to render a mechanism harmless is fragile. If borrowing is not needed at ten per cent, it should not be carried forward at all.

Limit post-2030 multi-year monitoring to exceptional cases

Recommendation 13: *Limit post-2030 multi-year monitoring to exceptional circumstances. Retain the general prohibition on multi-year monitoring periods extending beyond 2030. Any exception should be confined to committed and funded emissions-reduction projects with verifiable milestones, minimum annual compliance requirements and an equivalent cumulative emissions outcome.*

Rationale: Multi-year monitoring defers the point at which compliance is assessed. It does not reduce the abatement task and does not itself deliver emissions reductions. Its justification has been transitional, and by 2030 facilities will have had seven years under the reformed mechanism.

The structural argument is stronger than the transitional one. From 2031 baselines are set in five-year blocks aligned to Australia's Nationally Determined Contribution. A monitoring period spanning a block boundary would allow compliance in one target period to be satisfied by performance in another, which is difficult to reconcile with the way the targets are constructed. That argument does not depend on a judgement about whether facilities have had sufficient time.

The mechanism also sits alongside others addressing the same problem. Facilities with short-term exceedance can borrow. Facilities facing demonstrated cost impacts can seek a trade-exposed baseline-adjusted determination. Facilities with limited near-term onsite options can surrender ACCUs or Safeguard Mechanism Credits. Retaining multi-year monitoring beyond 2030 in addition would add a fourth deferral pathway without a corresponding abatement outcome.

Climate Friendly recognises that some industrial decarbonisation projects have construction and commissioning timelines exceeding a single compliance year. If Government concludes that a narrow exception is warranted, the existing eligibility framework already provides the appropriate tests, and those tests should apply unchanged rather than in a lighter form. An applicant must demonstrate funding or planning commitments, secured approvals and contractual arrangements, organisational capacity, a milestone timeline supported by an approved project plan, and estimates of covered emissions, net emissions and baselines for each year of the period.

Any exception should also carry minimum annual compliance targets. Climate Friendly proposed this in its 2023 submission on the basis that multi-year monitoring periods push emissions targets to the end of a five-year window and amplify the risk that the mechanism exceeds its emissions budget. Minimum annual targets address that risk directly and would also help avoid a supply crunch if emissions reduction activities do not deliver as forecast.

Clarify the role of the Cost Containment Measure as a measure of last resort

Recommendation 14: *Clarify the role of the Cost Containment Measure as a mechanism of last resort that provides compliance cost certainty during periods of genuine market stress. Its price, available volume and release conditions should be transparent and calibrated so that the measure does not undermine incentives for onsite emissions reduction or investment in new ACCU supply.*

Rationale: The Cost Containment Measure plays an important role within the Safeguard Mechanism by providing confidence that compliance costs will remain manageable during periods of genuine market stress. Its purpose should be to address exceptional circumstances in which facilities cannot obtain sufficient compliance units at reasonable market prices, rather than to provide a routine source of supply or operate as a predictable ceiling on carbon prices.

When introduced, the Cost Containment Measure price was deliberately set well above prevailing ACCU prices and the cost of many available onsite emissions-reduction opportunities. The intention was that facilities would first pursue feasible onsite abatement and access ACCUs and SMCs through the market, with Commonwealth supply available only as a last resort. The measure commenced at \$75 per ACCU, increasing to \$79.20 for the 2024–25 compliance year and \$82.68 for 2025–26.

Over time, however, the relationship between the administered price and the cost of other compliance options may change. The administered price is indexed at CPI plus 2 per cent, despite future compliance costs being driven by factors largely unrelated to consumer inflation.

The cost of onsite industrial abatement is influenced by:

- technology costs and commercial maturity;
- energy and electricity prices;
- equipment replacement and capital investment cycles;
- supporting infrastructure availability;
- financing costs and access to capital;
- planning, approvals, procurement and construction timeframes; and
- facility-specific engineering and operational constraints.

Future ACCU supply and prices are influenced by a different but similarly complex set of factors, including:

- the availability and design of ACCU methods;
- project development and regulatory approval timeframes;
- land manager participation and willingness to accept long-term obligations;
- access to project finance and the cost of capital;
- project establishment, implementation, monitoring and audit costs;
- contractual commitments and existing forward-sale arrangements;
- project delivery and issuance risk; and
- expectations of future demand and carbon values.

These factors are not closely correlated with movements in the consumer price index. Indexing the administered price to CPI plus 2 per cent therefore does not ensure that the price will remain appropriately calibrated to the cost of industrial decarbonisation, market ACCU prices or the investment required to develop new domestic abatement supply.

As lower-cost onsite emissions-reduction opportunities are progressively adopted, facilities are likely to move up the marginal abatement cost curve. At the same time, increasing Safeguard demand, constraints on realistically deliverable

ACCU supply and the cost of developing new projects may place upward pressure on market prices. The premium between the Cost Containment Measure price and other compliance options may consequently narrow.

RepuTex's central case forecasts an ACCU clearing price of approximately \$63.40 by the 2030 compliance year and \$96.30 by 2035 in real terms. Under current indexation, the administered price would also reach the high \$90s over a similar period. While actual outcomes will depend on future supply, demand and policy settings, these projections illustrate how the Cost Containment Measure price could move from a deterrent level towards a price capable of influencing ordinary market expectations.

Importantly, the Cost Containment Measure does not need to be triggered, or hold enough units to meet total compliance demand, to influence market behaviour. Its effect on forward pricing may arise well before any effect on spot markets or any release of Commonwealth-held units. Once the administered price approaches forecast market levels, buyers may be reluctant to enter long-term contracts above the price at which they expect units could become available from the Commonwealth. The administered price may therefore begin to operate as an effective ceiling on the forward curve, even where access to Commonwealth units remains conditional.

This effect is particularly important in a relatively thin market and for projects requiring long investment lead times. Land-sector carbon projects can involve several years of development, financing, commercial negotiation, implementation, monitoring and audit before first ACCU issuance. Land managers and project proponents accept long-term delivery and permanence obligations based partly on expectations of future carbon values. A visible administered price in the 2030s can therefore affect project valuations and financial investment decisions being made today.

If the measure suppresses forward price signals below the level required to support new investment, a mechanism designed to manage a future shortage of compliance units could inadvertently weaken investment in the supply needed to avoid that shortage. The same concern applies to industrial decarbonisation investments where facilities require credible long-term carbon price signals to assess the commercial case for capital-intensive technologies and infrastructure.

To maintain the Cost Containment Measure's intended role while preserving investment signals, Government should:

- **Review and re-base the indexation methodology** so that the administered price remains appropriately related to the cost of future abatement investment, rather than being determined solely by movements in consumer prices.
- **Publish the current holding, acquisition pathway and expected available volume by year**, allowing market participants to understand the practical scale of the measure and assess whether it can credibly operate as intended.
- **Define release conditions by reference to observable market conditions rather than price alone**, including evidence of genuine supply constraints or market stress, so that the administered price does not operate as a standing offer or routine compliance pathway.
- **Publish a clear purchasing and release policy** addressing the relationship between Commonwealth acquisition prices, release prices and the treatment of the project proponents and land managers who generated the units.
- **Assess the effect of the measure on forward price formation**, contracting behaviour and financial investment decisions, rather than evaluating its impact solely by reference to whether units have been released.
- **Periodically review the measure's interaction with onsite abatement costs, ACCU and SMC markets and future domestic supply**, ensuring that its settings remain aligned with its role as a mechanism of last resort.

These measures would provide facilities with appropriate protection against genuine market stress while reducing the risk that the Cost Containment Measure distorts normal market operation, weakens the business case for onsite abatement, or discourages investment in new ACCU supply.

Ensure any Border Carbon Adjustment is evidence based

Recommendation 15: *Apply a Border Carbon Adjustment where there is clear evidence of carbon-leakage risk, reliable embedded-emissions data and practical administrative feasibility. Any related changes to trade-exposed baseline assistance should be transparent, prospective and implemented only once the adjustment is operating effectively.*

Rationale: A Border Carbon Adjustment (BCA) may provide a more direct mechanism for addressing carbon leakage by ensuring imported products face comparable carbon costs to domestic production. However, a BCA should only be applied where Government can demonstrate a material risk of carbon leakage and reliably compare the emissions intensity and carbon constraints applying to both domestic and imported products.

Establishing an effective BCA is likely to be complex. It requires reliable embedded-emissions data, robust administrative arrangements, clear treatment of overseas carbon policies and careful consideration of trade and competitiveness impacts. Where these preconditions are not met, a BCA may not provide an accurate or administratively efficient mechanism for managing leakage risk.

Trade-exposed baseline assistance and any future BCA should therefore be considered as part of a single carbon-leakage framework. While both measures seek to address competitiveness concerns, they operate through different mechanisms. A well-designed and effective BCA may reduce the need for some forms of ongoing assistance over time. However, assistance should not be withdrawn simply because a BCA has commenced. Any changes should be transparent, prospective and implemented only once the BCA has been demonstrated to operate effectively and manage the identified leakage risk.

Climate Friendly does not propose specific commodity coverage, emissions-calculation methodologies or design settings. These issues require further sector-specific economic, trade and regulatory analysis. However, any future BCA should be evidence-based, administratively practical and implemented in a manner that maintains incentives for emissions reduction while supporting the competitiveness of Australian industry.

Align coal baselines after 2030 and require accurate measurement of fugitive methane

Recommendation 16: *Align coal facility baseline arrangements with those applying to other sectors after 2030, and progressively require direct measurement of material fugitive methane emissions to support accurate baseline setting and emissions reporting.*

Rationale:

Coal facilities currently transition to a blended site-specific and industry-average baseline rather than the full industry-average treatment applying to most other Safeguard sectors. This was designed as a transitional accommodation and should have a clearly defined end point. Any alignment should be prospective and phased to provide investment certainty.

The more significant issue is emissions measurement integrity. In 2023-24, 72 coal mining facilities reported 31.64 Mt CO₂-e of covered emissions, of which 19.61 Mt was methane. This represents approximately 62 per cent of the sector's covered emissions and approximately 85 per cent of all methane reported under the Safeguard Mechanism.

A substantial share of these emissions continues to be estimated using default emission factors rather than direct measurement. Where improved measurement approaches are introduced over time, reported changes in emissions may partly reflect changes in estimation methodology rather than actual emissions reductions. This can affect both baseline setting and assessments of compliance performance. In practical terms, a facility's baseline may be established using one estimation approach, while future reported emissions may be determined using a more accurate methodology, making it difficult to distinguish genuine emissions reductions from improvements in measurement.

The ongoing methane estimation review should therefore be completed before post-2030 baseline settings are finalised. The review should also consider whether significant improvements in measurement warrant recalculation of historical emissions estimates, consistent with relevant IPCC guidance, where this would improve comparability and baseline accuracy over time.

The implications extend beyond facility compliance obligations. Coal facilities surrendered 3.52 million ACCUs in 2023-24, representing approximately 46 per cent of all ACCUs surrendered, and received 3.08 million SMCs, representing approximately 37 per cent of all SMCs issued. Both outcomes depend on the accuracy of methane estimates.

SMCs are often characterised as representing onsite abatement and are sometimes presented as preferable to purchased ACCUs. However, where methane emissions are estimated rather than directly measured, both baseline calculations and reported performance depend on the same underlying emissions estimates. In those circumstances, the integrity of both ACCUs and SMCs is linked to the quality of methane measurement. Direct measurement should therefore be prioritised wherever methane emissions are material.

This issue is particularly important given the scale of fugitive methane emissions in the coal sector and the increasing focus on methane as a near-term climate forcing gas. Strengthening measurement integrity would improve confidence in emissions reporting, baseline setting, SMC issuance and ACCU demand outcomes, while ensuring that emissions reductions represent genuine changes in atmospheric emissions rather than changes in estimation methodologies.

Finally, output-based baselines adjust with production, but fugitive methane emissions may continue after production declines or ceases. Residual and post-closure emissions should therefore be appropriately accounted for within the Safeguard framework and should not automatically fall outside the scheme simply because a production variable approaches zero.

Climate Friendly does not propose differential treatment between thermal and metallurgical coal. The measurement integrity and baseline design issues identified above apply equally to both.

Progressively lower the Safeguard Mechanism coverage threshold

Recommendation 17: *Progressively expand Safeguard Mechanism coverage following 2030, with a pathway towards alignment with the broader NGER reporting threshold of 25,000 tCO₂-e, having regard to administrative burden, proportionality and emissions-reduction benefit. At a minimum, the existing 100,000 tCO₂-e threshold should decline consistently with the applicable baseline decline rate so that successful emissions reduction does not automatically remove facilities from the mechanism.*

Rationale: The current fixed threshold creates a structural risk that facilities will progressively fall outside the Safeguard Mechanism as they successfully reduce emissions. This would reduce scheme coverage and transfer a greater share of the emissions-reduction task to the facilities that remain covered.

The consultation modelling supports a phased approach. Moderate threshold reductions would capture additional facilities and emissions largely within sectors already covered by the Safeguard Mechanism. For example, the consultation indicates that a reduction to 80,000 t CO₂-e would add 39 facilities and 3.4 Mt CO₂-e of covered emissions without introducing a new sector. New sectors begin entering at lower thresholds, while a reduction to 25,000 t CO₂-e would add substantially more facilities and industry groups.

Importantly, the consultation reports additional facilities, not additional companies. Some newly covered facilities would be operated by companies that already manage other Safeguard facilities and may be able to share existing reporting, governance and compliance capability. This means the additional administrative burden may be lower than implied by facility numbers alone. Government should assess threshold options at both facility and corporate-group level.

Independent modelling supports the case for broader coverage. EY estimates that lowering the Safeguard threshold could add up to 13 Mt of covered emissions, increasing Safeguard emissions coverage by approximately 10%. This would broaden the abatement incentive across the economy while providing a stronger demand signal for new domestic supply.

A staged reduction would allow Government to broaden the carbon signal, address competitive distortions within existing sectors, establish any required production variables and monitor compliance costs before introducing further sectors. Newly covered facilities should receive adequate notice and progressively converge with the baseline treatment applying to existing facilities.

The immediate priority is to prevent erosion of existing coverage. If Government does not adopt a pathway towards 25,000 t CO₂-e, the current threshold should at least decline in line with the applicable baseline decline rate.

Set a transparent and credible Safeguard contribution to the 2035 target

Recommendation 18: *Set a transparent, ambitious and deliverable Safeguard Mechanism contribution to Australia's 2035 emissions reduction target. Retain an objective proportional-share approach informed by feasible onsite abatement, realistic ACCU and SMC supply, production assumptions and the investment decisions required for delivery.*

Rationale: The Safeguard Mechanism covers approximately 30% of national emissions and should continue to make a proportionate contribution to Australia's emissions-reduction targets. A proportional-share approach provides an objective starting point and supports a fair distribution of the national task between Safeguard facilities and the rest of the economy.

Climate Friendly supports updating the proportional share where this reflects more recent and representative pre-reform data. The consultation proposes increasing the share from 28.1% to 29.8%, based on the average Safeguard share of national emissions in 2021-22 and 2022-23. The methodology and reference period should be published and applied consistently, and the share should be recalculated if the Safeguard coverage threshold changes.

The Safeguard contribution should aim towards the higher end of Australia's 62% to 70% target range. However, the final target must be supported by credible assumptions regarding production, new entrants, concessional baselines, feasible onsite reduction and realistically deliverable ACCU and SMC supply. Technical abatement potential should not be treated as supply available within the 2030 to 2035 period.

The reserve should manage reasonable uncertainty, not reduce ambition or defer the task. Its size and assumptions should be transparent, including expected production growth, new facilities and access to concessional baselines. Government should report periodically on whether actual outcomes remain within those assumptions and adjust settings prospectively where required.

The target, proportional share and reserve should be settled early enough to influence investment decisions. Industrial and land-sector projects require long development periods, and the emissions reductions available during 2030 to 2035 will depend substantially on investment decisions made before 2030. Policy certainty is therefore a condition of delivery, not simply an administrative preference.

Establish a clear, predictable and evenly distributed post-2030 baseline decline trajectory

Recommendation 19: *Establish a clear and predictable post-2030 baseline decline trajectory aligned with the 2035 target and informed by feasible onsite abatement, realistic unit supply and investment lead times. The emissions reduction task should be distributed progressively across the period rather than concentrated in the final years before 2035.*

Rationale: A clear and predictable post-2030 decline trajectory is necessary to convert Australia's 2035 emissions reduction target into investment decisions. Facilities, investors and carbon-project proponents require sufficient visibility to assess abatement options, commit capital and deliver projects within the relevant compliance period.

The decline trajectory should be informed by transparent assumptions regarding the 2035 target, feasible onsite abatement, realistic ACCU and SMC supply, production pathways, scheme coverage and the investment lead times required to deliver both industrial decarbonisation projects and new sources of domestic abatement. These factors are identified in the consultation paper as key inputs to the post-2030 framework.

The trajectory should also recognise the practical timing constraints associated with emissions reduction. Major industrial investments often require many years to progress through feasibility assessment, financing, approvals, procurement and construction before emissions reductions are realised. Similarly, new ACCU projects initiated following this review are unlikely to contribute materially to supply before 2030, despite requiring substantial upfront investment today.

For these reasons, the emissions reduction task should be distributed progressively across the period rather than concentrated in the final years before 2035. A back-loaded trajectory would weaken near-term investment signals, increase reliance on projects being delivered precisely on schedule, and heighten the risk of future compliance and unit-supply shortages. A more consistent decline pathway would support earlier onsite abatement, more orderly demand for ACCUs and SMCs, and a smoother transition toward the 2035 target.

Policy flexibility should help manage genuine delivery risks and timing constraints, but it should not substitute for providing a credible and durable investment signal capable of mobilising the emissions reductions and abatement supply needed after 2030.