The Emissions Reduction Fund is complemented by a Safeguard Mechanism, a policy measure that encourages large businesses to keep their emissions within historical levels. The Safeguard Mechanism came into effect on 1 July 2016 and applies to around 140 businesses that have facilities with direct emissions of more than 100 KtCO2-e. For these facilities, the government set a baseline level using the highest level of reported emissions for a facility over the historical period 2009/2010 to 2013/2014. The Safeguard Mechanism is, in its existing regulatory form, a type of emissions trading - if covered facilities exceed their baselines they are required to purchase offsets - in the form of ACCUs from the domestic offset market.

Safeguard Mechanism Characteristics
- Covers only National Greenhouse & Energy Reporting (NGER) Act compliant organisations;
- Covers facilities with direct, scope 1 emissions that exceed the 100,000tCO2-e per annum threshold;
- Ensures that emissions remain below initial baseline levels. Baselines are set on a single facility basis, to the highest emissions level over the period 2009/10 to 2013/14;
- Enables facilities to average their emissions over a maximum of a three-year period (facilities can thus exceed their baseline in one year if emissions remain below baselines in the subsequent 2 years; and
- Allows businesses that exceed their baselines to surrender ACCUs to offset their excess emissions.

Contribution to Australia’s Emissions Reduction Task
The indicative contribution of the Safeguard Mechanism to the 2030 emissions reduction task is between 300-400MtCO2-e. This is the largest of all emissions reductions sources outlined by the Government, implying the Safeguard Mechanism will play a significant role in reducing Australia’s emissions. In its current form however, the Safeguard Mechanism is not expected to make a significant contribution to reducing emissions below business as usual levels, as the baselines are not set to drive demand for ACCUs, nor obtain significant emissions reductions required to meet Australia’s target.

Policy Options, Considerations & Recommendations

1. The Government should make clear that the objective of the Safeguard Mechanism is to ensure that it makes an effective and significant contribution to the emissions reductions needed for Australia to achieve its commitments under the Paris Agreement.
2. The Government should determine the specific quantum and/or percentage contribution that the Safeguard Mechanism will make to meeting Australia’s existing emissions reduction targets and how that will vary under future enhanced UNFCCC commitments.
3. The Government should provide clarity on the conditions, criteria and process for how emissions baselines under the Safeguard Mechanism will be adjusted to decline in the post-2020 period.
4. The Government should determine how coverage of the electricity sector under the Safeguard Mechanism can most effectively be treated in order to send a carbon price signal to transition to lower emission sources of electricity generation.
5. The Government should lower the threshold coverage for entities liable under the Safeguard Mechanism to expand the volume of emission reductions achieved under this mechanism.
6. The Government should examine options for how the Safeguard Mechanism can evolve into an effective trading system to drive lowest-cost emission reductions across covered facilities.
7. The Government should determine more stringent enforcement options and penalties for non-compliance under the Safeguard Mechanism, sufficient to incentivise low-carbon investment.

More details can be found in CMI’s 2017 Submission to the Australian Government’s Review of Climate Policies.

For more information on the Safeguard Mechanism, go to http://www.cleanenergyregulator.gov.au/NGER/The-safeguard-mechanism