



SUBMISSION

Safeguard Mechanism Review

Submission to the DCCEEW - September 2026

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About the Smart Energy Council

The Smart Energy Council (SEC) is Australia's peak body for the renewable energy and storage industry, representing over 700 member companies across solar, battery storage, energy management, and related clean energy sectors. Our membership spans technology manufacturers, installers, retailers, financiers, and policy advocates, all committed to accelerating Australia's transition to clean, affordable energy.

1. Introduction

The SEC welcomes the opportunity to provide a submission to the Department of Climate Change, Energy, the Environment and Water regarding the Safeguard Mechanism Review. We understand the critical role this framework plays in driving industrial decarbonisation, strengthening national energy and fuel resilience and securing Australia's transition to a clean, competitive, net zero economy.

While it is acknowledged that the operational architecture of the reformed Safeguard Mechanism has decreased net emissions between 2023 and 2025, a rigorous analysis of the scheme shows that physical, on-site abatement remains severely lagging, with gross emissions falling by only 1.9 and 2.4 per cent over the same initial two-year period. Heavy emitters continue to rely overwhelmingly on paper offsets (ACCUs) to meet compliance obligations, deferring vital capital expenditure on genuine technology deployment. Furthermore, the scheme leaves major structural drivers of fossil fuel reliance unaddressed, including the exemption of grid-connected power generation from facility-level baselines, special baseline concessions for fossil fuel extraction and counterproductive market distortions created by the federal Fuel Tax Credit (FTC) scheme.

To align the Safeguard Mechanism with climate science and Australia's 2030, 2035 and 2050 renewable energy and emissions reduction targets, the Government must tighten post-2030 baseline decline rates, restrict offset reliance, bring coal and gas power generators under direct facility-level obligations and align carbon market rules with broader industrial and fuel policy reforms.

To ensure the Safeguard Mechanism delivers genuine physical decarbonisation, the following policy improvements are recommended:

- Accelerate 2035 baseline decline rates.
- Contain offsets to drive on-site abatement.
- Bring electricity generation into facility-level obligations and terminate coal mining baseline concessions.
- Reform the FTC scheme via cap-and-reinvest.
- Expand scheme coverage post-2030.
- Implement border carbon adjustments (BCA) and reform TEBA.
- Mandate national transport reporting.
- Establish symmetrical price controls.

2. Tracking Progress to 2030

Australia's 2025 emissions projections indicate that net Safeguard emissions are on track to reach 90 Mt in 2029-30, well below the legislated point target of 100 Mt CO₂. However, a deeper evaluation of scheme performance reveals a concerning gap between net compliance and gross physical abatement. Gross emissions fell by only 1.9 per cent in 2023-24 and 2.4 per cent in 2024-25 (to 133 Mt). Of the 6 Mt total gross reduction recorded over these two years, 1.1 Mt was simply due to facility exits rather than physical operational efficiency.

This slow pace of gross abatement reflects the reality that industrial facilities are relying on Australian Carbon Credit Units (ACCUs) as a primary compliance strategy. In 2024-25, facilities surrendered 10.8 million ACCUs compared to only 2.6 million Safeguard Mechanism Credits (SMCs). Furthermore, 23 facilities in 2024-25 (up from 18 in 2023-24) surrendered ACCUs exceeding 30 per cent of their baseline.

While Safeguard objectives require 5-year rolling average gross emissions to fall over time, the current margin of compliance is narrow and largely driven by low baseline years during the pandemic (2020-21 and 2021-22). Due to heavy industrial facilities operating long-lived assets with 15-to-30-year capital reinvestment cycles, delaying physical decarbonisation in favour of offsets risks locking in carbon-intensive infrastructure well into the 2030s and 2040s.

Furthermore, uptake of concessional baselines under the Trade-Exposed Baseline-Adjusted (TEBA) provisions has been 0.4 Mt higher than anticipated, consuming a portion of the reserve buffer embedded in the 4.9 per cent decline rate. While net targets for 2030 appear reachable, relying on land-sector offsets to achieve industrial compliance poses severe risks to Australia's long-term net zero trajectory as ACCU supply tightens post-2030.

3. Review of current settings

3.1 Flexible compliance

3.1.1 Emissions reduction technologies

Achieving deep industrial decarbonisation requires deploying mature clean technologies, such as industrial heat pumps, thermal storage, process electrification and onsite solar and battery storage, alongside medium-term commercialisation of green hydrogen and green metals processing. However, commercial deployment remains hindered by distorted economic signals that subsidise fossil fuel use while penalising clean capital investment.

While co-investment programs such as the Powering the Regions Fund and the National Reconstruction Fund's \$5 billion Net Zero Fund provide essential support, they are forced to compete against ongoing fossil fuel subsidies. The federal Fuel Tax Credit (FTC) scheme returns up to 51.6 cents per litre to off-road diesel users, creating an implicit fossil fuel subsidy of approximately \$191 per tonne of CO₂. Compared to the current ACCU price of \$38/t CO₂, industrial facilities receive an economic incentive to continue burning diesel that is five times larger than the carbon price signal penalising their emissions. IEEFA analysis reveals that for a large open-cut coal mine, the Safeguard compliance cost in FY25 averaged just 14 cents

per tonne of coal produced, compared to a Diesel FTC rebate worth \$5.15 per tonne of coal, a 37 to 1 ratio favouring continued diesel consumption.

3.1.2 Domestic offsets

Unrestricted access to project-based ACCUs lowers short-term compliance costs but creates a systemic barrier to physical decarbonisation. Relying on land-based biological carbon sequestration to offset long-lived industrial fossil fuel emissions raises fundamental issues of scientific equivalence and permanence, as biological carbon remains vulnerable to reversal from bushfires, drought and climate change.

Furthermore, coal mining has become the single largest consumer of carbon credits in the Safeguard Mechanism, consuming land-based sequestration credits to offset fugitive methane emissions because project-based methane credits are scarce. This skews the broader ACCU market, crowding out other hard-to-abate sectors that require offsets for residual process emissions.

To drive genuine on-site abatement, DCCEEW must introduce clear guardrails on offset usage:

- **Quantitative limits:** Cap the proportion of ACCUs a facility can surrender for compliance at 30 per cent of its baseline obligation in 2026, tapering down via a clear glidepath to 20 per cent by 2030.
- **Discounting factors:** Require facilities to surrender 1.5 to 2 ACCUs for every 1 tonne of baseline exceedance above a specified threshold, altering the relative price ratio between ACCUs and on-site capital investment.
- **Permanence and methane stacking:** Align credit surrender ratios with scientific integrity by requiring a 4x surrender multiplier for 25-year permanence ACCUs compared to 100-year permanence units. Furthermore, require fugitive methane exceedances to be offset using Global Warming Potential over a 20-year horizon (GWP-20), where methane is 84 times more potent than CO₂ or apply a corresponding 4x discount factor to ACCU surrenders for methane.
- **Vintage limits:** Restrict eligible ACCUs to a rolling 5-year vintage limit to ensure compliance units represent modern, high-integrity abatement aligned with current target periods.

3.2 Inter-temporal flexibility and the cost containment measure

3.2.1 Banking

Unrestricted banking of SMCs should be retained beyond 2030 through to 2050. As aggregate baselines successfully eliminated pre-reform headroom (falling by 32.7 Mt in 2023–24), there is no risk of artificial credit oversupply transferring into post-2030 periods. Unrestricted banking encourages facilities to undertake deep, early physical abatement and provides price stability across multi-year investment cycles.

3.2.2 Borrowing

Borrowing provisions (allowing facilities to borrow up to 10 per cent of the following year's baseline with interest) are functioning effectively as a short-term flexibility tool, with only four facilities utilising borrowing across the first two years. Borrowing rules should continue post-2030, but borrowing across five-year target compliance boundaries (borrowing from 2030–31 to fulfill 2029–30 liabilities) must be strictly prohibited to preserve the integrity of legislated target budgets.

3.2.3 Multi-year monitoring

Multi-year monitoring periods (MYMPs) were designed as a temporary transition mechanism. MYMPs should not extend beyond 2029–30. Allowing multi-year monitoring periods into the 2030s creates a material risk of delayed action, enabling facilities to defer compliance investments until the end of target periods.

3.2.4 Cost containment measure

The current Cost Containment Measure (CCM), set at \$75/t CO₂ in 2023–24 and indexed at CPI plus two per cent, provides an appropriate ceiling against extreme upside cost spikes. However, because CCM holdings rely on fixed-government contract exits that cease on 31 December 2030, analysts project the CCM pool will accumulate at most 26 million ACCUs by 2030, covering less than a single year of Safeguard compliance demand (projected at 26 Mt in 2030 and 35 Mt in 2035).

To provide long-term investment certainty for clean technology developers, the Government should establish a symmetrical cap-and-collar price mechanism:

- Upside cost cap: Maintain the CCM cost ceiling.
- Downside price floor: Establish a guaranteed price floor for ACCUs and SMCs. A price floor protects clean energy and decarbonisation project developers against carbon price collapses, establishing the revenue certainty needed to underwrite long-term PPAs, green hydrogen offtakes and equipment electrification.

3.3 Trade exposed and strategic industries

3.3.1 Economic opportunities and competitiveness

The global transition to net zero presents enormous economic opportunities for Australia in green metals, renewable hydrogen, low carbon liquid fuels and critical minerals processing. Future Made in Australia initiatives and the \$5 billion Net Zero Fund provide essential capital support. However, within the Safeguard Mechanism, support must be structured to maintain competitiveness without creating permanent shelters for carbon-intensive production.

3.3.2 Carbon leakage

The Carbon Leakage Review confirmed that while concessional baselines manage leakage risks in the short term, declining baselines will increase leakage exposure over time. Managing carbon leakage is essential to ensure production does not shift to jurisdictions with weaker climate policies.

3.3.3 Trade-exposed baseline adjustments

Linking TEBA eligibility to facility-level scheme cost impacts (>3 per cent of EBIT for manufacturers) creates a perverse incentive. A facility that proactively invests in on-site abatement risks reducing its scheme compliance costs below the 3 per cent EBIT threshold, thereby losing its TEBA status and incurring a steeper baseline decline. This structural flaw penalises early movers and encourages facilities to defer physical decarbonisation.

TEBA should be reformed through three structural adjustments:

- Move to a sectoral TEBA approach: Assign TEBA eligibility based on sector-wide carbon leakage risk (drawn from the Carbon Leakage Review findings) rather than facility-specific cost impacts. All eligible facilities within high-risk sectors (e.g., alumina, primary metals, chemicals) should receive uniform sectoral decline rates, eliminating the penalty for early on-site abatement.
- Implement a catch-up mechanism: Introduce a transition proportion allowing TEBA baselines to progressively converge back to the default national baseline trajectory by 2049-50, ensuring TEBA recipients contribute equitably to net zero.
- Automatic TEBA removal under BCA: As recommended by the Carbon Leakage Review, automatically revoke TEBA concessions for any commodity sector once an Australian BCA is fully operational for that product stream.

3.3.4 Border Carbon Adjustment Mechanisms

A Carbon Border Adjustment Mechanism (CBAM) is the single most effective instrument available to the Government for reducing emissions without displacing them offshore. The central weakness of any unilateral carbon constraint (including a tightened Safeguard Mechanism) is carbon leakage, defined here as the offshoring of emissions-intensive production to jurisdictions with weaker climate policies. A CBAM closes this loophole by applying an equivalent carbon cost to the emissions embodied in imported goods, ensuring they face the same price as domestic production. In doing so, it removes the primary structural justification for concessional treatment and allows Australia to pursue the post-2030 decline rates recommended in this submission without offshoring the emissions the scheme is designed to abate.

This conclusion is now supported by the Government's own evidence base. The Carbon Leakage Review, led by Professor Frank Jotzo and released in final form in February 2026, examined 75 trade-exposed commodities and found that while current Safeguard settings manage leakage risk in the short to medium term, additional measures will be required as import competition intensifies.

The Review identified a border carbon adjustment as the preferred instrument for a select group of high-risk commodities, recommending that any CBAM mirror the Safeguard Mechanism's Scope 1 scope, avoid export rebates, and remove TEBA provisions for covered commodities. This would commence with cement and clinker before expanding to commodities such as lime, steel, glass and ammonia. The SEC's recommendations below are closely aligned with these findings, and we urge the Government to act on its own Review through this Safeguard process rather than deferring the question further.

The SEC broadly supports the prompt implementation of an Australian CBAM:

- Initial implementation - Apply a CBAM immediately to imported cement, clinker, and lime.
- Phased expansion - Establish a clear legislative pathway to expand CBAM coverage to steel, iron, glass, hydrogen, and ammonia.
- Design principles - Ensure the CBAM mirrors domestic Safeguard settings by assessing imported goods on embedded Scope 1 emissions above benchmark baselines, netting off explicit effective carbon prices paid in the country of origin.
- TEBA alignment: Revoke TEBA provisions for specific commodities once a CBAM is operational for that sector, ensuring imported and domestic goods face equal carbon obligations.

3.4 Coal Mining and transport

3.4.1 Coal Mining

Coal mining represents roughly 24 per cent of covered Safeguard emissions (31.7 Mt in 2024-25, including 19.5 Mt of fugitive methane). Despite its large carbon footprint, coal mining receives policy concessions.

- Hybrid baseline concession: While all other industrial sectors transition to 100 per cent industry-average baselines by 2030, coal mining baselines transition to a permanent 50:50 hybrid mix of site-specific and industry-average emissions intensity. This permanently lowers baseline obligations for gassier, high-emitting coal mines.
- Method 2 methane under-reporting: Open-cut coal mines shifting from state default factors (Method 1) to site-measured estimates (Method 2) reported a 76 per cent reduction in methane intensity in NSW and 41 per cent in Queensland without undertaking physical abatement. Independent airborne studies by UNSW found Bowen Basin open-cut methane emissions were underestimated by a factor of 3.6 relative to reported NGER data.

Therefore, the SEC recommends that the 50:50 hybrid baseline concession for coal mining be phased out post-2030, requiring all coal facilities to transition fully to 100 per cent industry-average baselines by 2035. Furthermore, NGER measurement rules must be updated to replace flawed Method 2 estimations with direct, independently audited airborne and satellite measurement.

3.4.2 Road and rail transport

Current NGER rules allow transport operators to define facility boundaries at either state and territory or national levels. Consequently, only 10 per cent of road freight emissions are covered under the Safeguard Mechanism (0.4 Mt across one to three facilities), whereas 84 per cent of rail freight emissions are covered (2.9 Mt across six facilities). This creates an artificial competitive distortion between competing freight modes.

It should be mandated that national facility reporting must occur for all transport sectors under NGERs post-2030. Mandating national transport reporting expands road freight Safeguard coverage from 10 to 51 per cent (1.7 Mt CO₂), establishing competitive neutrality between road and rail while accelerating commercial vehicle fleet electrification.

3.5 Coverage

3.5.1 Coverage threshold

The current 100,000 tonnes of CO₂ threshold covers approximately 30 per cent of national emissions across 208 facilities. To meet Australia's 2035 target, the Safeguard Mechanism must expand its reach. The SEC supports lowering the coverage threshold to 50,000 tonnes of CO₂ post-2030.

Lowering the threshold to 50,000 tonnes captures an additional 7.8 Mt CO₂ across 108 facilities in sectors including metal ore mining, chemical manufacturing, paper products, civil construction and water transport. Lowering the threshold expands carbon market demand, eliminates competitive distortions between mid-sized and large industrial facilities while providing clean energy developers with a broader pool of potential PPA offtakers. Newly covered facilities should have baselines set using standard ERC decline rates, announced with a 3-year lead time to allow businesses time to prepare.

3.6 Technical and administrative matters

The SEC broadly supports the proposed administrative updates to the Safeguard Rule to clarify operational consistency. The SEC further recommends:

- Enhanced NGER measurement accuracy: Replace theoretical estimation factors with direct, audited scientific measurement for fugitive methane emissions.
- Establish public performance dashboards: Require Clean Energy Regulator public reporting on facility-level compliance choices, clearly distinguishing between physical on-site abatement, SMC surrenders and ACCU purchases, to build community trust and policy transparency.

4. Meeting the 2035 target

4.1 Safeguard share of 2035 target

Australia's Nationally Determined Contribution (NDC) target requires reducing national net emissions by 62 to 70 per cent below 2005 levels by 2035. The Safeguard Mechanism must contribute a proportional share of this national target. The SEC supports updating the Safeguard Mechanism's proportional share from 28.1 to 29.8 per cent, reflecting updated national inventory data for the two years prior to reform. Retaining a static proportional share provides long-term structural predictability for industrial capital planning.

Based on a 29.8 per cent proportional share, the Safeguard Mechanism targets for 2035 would be:

- 2035-point target: 54.3 Mt to 68.8 Mt CO₂.
- 2031–2035 cumulative budget: 369.3 Mt to 412.8 Mt CO₂.

4.2 Electricity Generation

Grid-connected electricity generation is treated differently under the Safeguard Mechanism from every other major industrial source of emissions. Where covered industrial facilities each carry their own baseline, generators sit collectively behind a single electricity-sector baseline. The SEC's position is that this exemption should now end for coal. Each coal-fired power station should be brought inside the mechanism and made accountable for the emissions it produces.

The scale of the current gap is easy to show. The sector baseline is set at 198 million tonnes of carbon dioxide equivalent. In 2024-25, grid-connected generation produced 133.7 million tonnes. Sector emissions could therefore rise by more than 64 million tonnes, an increase of close to 50 per cent, before the mechanism imposed any obligation on anyone. As the SEC has argued publicly, a threshold set that far above actual emissions places no real constraint on any individual generator.

The 2015 rationale

There were good reasons for the sector-wide approach when the mechanism was designed in 2015. Electricity runs as an interconnected system, so cutting output at one generator can simply lift it at another, and a facility-level obligation risked chasing emissions around the grid rather than reducing them. The sector was also seen as already in transition: capacity was in surplus, stations were closing or had flagged closure, demand was flat, and rising renewable output was expected to pull sectoral emissions down on its own.

That was a case for transitional treatment, not permanent exemption. A decade on, the binding problem in the electricity market is no longer the current level of sectoral emissions. It is certainty: the confidence investors need to fund the replacement generation, storage, transmission and firming required as ageing coal leaves the system.

This infrastructure is capital-intensive and financed over long horizons, and lenders commit only when they have a reasonable view of when replacement capacity will be needed and what market it will operate into.

Repeated extensions of coal-fired stations erode exactly that confidence. Each time a retirement date slips, replacement projects become harder to finance, investment decisions stall, and the jobs and regional activity that come with them arrive later. Consumers, meanwhile, stay exposed to the rising maintenance costs and reliability risks of an ageing fleet for longer than they should. The Safeguard Mechanism offers a way to set a firm line here without the Government having to administratively close anything.

A zero baseline past the closure date

The SEC proposes that a coal-fired station move to a zero Safeguard baseline once it operates beyond its previously proposed closure date, including any retirement date already notified to or registered with AEMO. From that point it would receive no free emissions entitlement and would surrender Australian Carbon Credit Units for every tonne of its covered emissions.

None of this prohibits a station from continuing to run. It ensures that running past the date the operator itself had nominated carries the carbon cost the Safeguard framework was designed to impose. Nor should a generator be able to earn Safeguard Mechanism Credits simply by later cutting output or closing. A closure that was always expected should not become a source of windfall credits; the zero baseline is meant to create a liability for continued generation, not a reward for a retirement that was coming anyway.

Every remaining coal-fired generator should reach a zero baseline by 2035 at the latest.

Once a station's compliance date is set, it should stay set - announcing a fresh retirement date should not reset the clock, or the obligation could be deferred indefinitely, one revised closure date at a time.

Reliability and investment certainty

A known, fixed compliance date is a bankable signal. Replacement capacity cannot be planned and financed overnight, and telling the market well in advance when a generator will face a zero baseline lets that investment happen before the capacity is needed, rather than in a scramble after an ageing plant fails or its retirement date moves again. The same fixed date gives workers and coal-dependent communities a horizon they can plan against, with the lead time an orderly transition needs to line up new investment, local economic development and the jobs meant to replace those being lost.

For this reason, we see the reform as strengthening reliability, not threatening it. A station genuinely needed to keep the system secure can still run; the reform changes only the cost of running it. By sharpening the signal to build replacement capacity ahead of retirement, it makes the system less likely to be caught short in the first place.

Rooftop solar and minimum load

There is a further dimension connected to Australia's fast-growing fleet of household solar and batteries. Coal units have minimum stable operating levels; they cannot switch off in the middle of a sunny day and switch back on for the evening peak. When solar output is high, that inflexibility adds to minimum-load pressure on the system. Coal is not the only cause of solar curtailment; network constraints and other technical factors matter too. But every large, inflexible coal unit left running takes up room that low-cost rooftop solar could otherwise fill in the hours when generation is abundant.

Australian households have put billions of dollars of their own money into rooftop solar and batteries. Market settings ought to be maximising the return on that private investment, not curbing it to accommodate ageing generators that have outstayed their planned lives.

The proposed reform

The SEC recommends ending the sector-wide treatment of grid-connected coal and replacing it, for coal generators, with facility-level obligations. A coal-fired station that runs beyond its previously proposed closure date should move to a zero baseline and surrender ACCUs for every tonne of covered emissions. It should not be able to earn Safeguard Mechanism Credits by winding back output or closing and every remaining unit should reach a zero baseline by 2035 at the latest. A later life-extension should not reset the compliance date. This directs no station to close. It puts a predictable price on the choice to keep one running past the point it was due to retire, and in doing so gives replacement investment the certainty it needs, workers and communities a clearer horizon, and the system protection against a cycle of coal extensions that keeps deferring the transition.

Waste-to-energy

Grid-connected waste-to-energy (WtE) incineration represents an emerging source of fossil-intensive generation that must not be permitted to escape facility-level Safeguard obligations. As Australia's coal fleet retires, WtE operators are actively seeking exemptions from federal regulation, including the Safeguard Mechanism, on the basis that burning municipal and commercial waste constitutes renewable, low-emissions electricity. The SEC's report, [Waste-to-Energy in Australia: Energy Solution or Problem?](#) (July 2026), directly tested and rejected both claims, finding that WtE is neither renewable nor a low-emissions source of electricity. The emissions are far higher than those of gas-fired generation, with a whole-of-life pollution profile only marginally below that of coal. As the emissions intensity of the rest of the grid decreases, WtE becomes a high-emitting outlier across the energy mix.

International policy is already responding to this changing dynamic. In July 2026 the European Commission proposed bringing municipal waste incineration into the EU Emissions Trading System (EU ETS). The proposal includes an obligation to surrender emissions allowances phased in between 2031 and 2034 on the explicit basis that once coal is phased out, incinerators rank among the most carbon-intensive sources of energy.

Exempting Australian WtE facilities from the Safeguard Mechanism would place Australia at odds with this international direction, shielding a high-emitting sector from a domestic carbon price at the very moment comparable economies are moving to impose one. The SEC report further finds that WtE operators derive only 10–20 per cent of their revenue from electricity generation, with the majority earned from waste processing, undermining any characterisation of these facilities as genuine renewable generators. Because WtE plants operate over asset lives of around 30 years, exempting them from the Safeguard risks locking in decades of avoidable emissions and entrenching long-term demand for incineration feedstock at the direct expense of recycling and the circular economy.

Consistent with the treatment recommended for coal-fired generators continuing beyond their closure dates, the SEC recommends that grid-connected waste-to-energy facilities be integrated into facility-level Safeguard obligations from 1 July 2030 with a zero baseline, attracting a full Safeguard liability for every tonne of covered emissions and receiving no free entitlements or eligibility to generate Safeguard Mechanism Credits.

4.3 Decline rates after 2030

To achieve the 2035 target, the post-2030 baseline decline rate must be tightened from the current 4.9 per cent per annum:

- Lower bound (62 per cent target): Requires an annual baseline decline rate of 4.5 per cent per annum.
- Upper bound (70 per cent target): Requires an annual baseline decline rate of up to 7.0 per cent per annum.

The SEC recommends calibrating baseline decline rates toward the 7 per cent per annum trajectory. Setting decline rates consistent with anything less than a 29.8 per cent proportional share unfairly shifts the decarbonisation burden onto uncovered sectors such as agriculture, small businesses and households.

Conclusion

The reformed Safeguard Mechanism has shown that a declining-baseline framework can bring net covered emissions down. However, that headline progress masks a critical shortfall in genuine, physical on-site abatement. Gross emissions have fallen by only 1.9 per cent and 2.4 per cent across the first two years of reform, and facilities have leaned heavily on land-based offsets, surrendering 10.8 million ACCUs against just 2.6 million SMCs in 2024-25, to meet their obligations. Left unreformed, the scheme risks certifying paper compliance while locking carbon-intensive industrial and energy infrastructure into the 2030s and 2040s, precisely when Australia must be accelerating toward its 2035 and 2050 commitments.

Meeting Australia's Nationally Determined Contribution of 62 to 70 per cent below 2005 levels by 2035 requires the Safeguard Mechanism to carry its full proportional share of the national task. This means calibrating post-2030 baseline decline rates toward 7 per cent per annum, containing offset reliance through quantitative limits and discounting factors that redirect capital

toward real abatement, lowering the coverage threshold to 50,000 tonnes, terminating the coal mining hybrid baseline concession, correcting the Fuel Tax Credit distortion through a cap-and-reinvest model, implementing a Border Carbon Adjustment alongside a sectoral TEBA, mandating national transport reporting, and establishing a symmetrical cap-and-collar price mechanism that gives clean technology developers the investment certainty they need.

The single most consequential structural reform is to end the exemption that shields grid-connected electricity generation from facility-level obligations. As Australia's coal fleet reaches the end of its operating life, the manner of its retirement must be governed by the Safeguard Mechanism rather than sitting outside of it. Any coal-fired generator continuing to operate beyond its previously announced closure date must be assigned a zero Safeguard baseline and face full liability for every tonne it emits, with all remaining coal generation moving to a zero baseline by 2035 at the latest, and with no capacity to harvest windfall Safeguard Mechanism Credits simply by closing or curtailing output.

The same discipline must extend to the rest of the generation mix - gas plants brought within the scheme from 1 July 2030, and grid-connected waste-to-energy incineration assigned a zero baseline rather than the exemption its operators are seeking. Allowing these emissions to remain outside the scheme would unfairly displace the decarbonisation burden onto agriculture, small business and households, and would leave Australia moving against international action while jurisdictions such as the European Union are moving to price the same emissions.

The SEC urges the Government to use this review to convert the Safeguard Mechanism from a net-accounting instrument into a driver of genuine, physical decarbonisation. Australia's renewable energy and storage industry remains ready to deliver the solar, storage, electrification, firming and clean-fuel technologies that a credibly tightening scheme will unlock.

We thank the Department of Climate Change, Energy, the Environment and Water for the opportunity to provide this submission and welcome further engagement on the matters raised.

If you have any queries, please do not hesitate to contact Rhiannon Evans via rhiannon@smartenergy.org.au.

Kind regards,

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