South Australian Chamber Of Mines & Energy

SACOME

SACOME Submission

Safeguard Mechanism Review

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Executive Summary

The South Australian Chamber of Mines & Energy (SACOME) is the peak industry association representing companies with interests in South Australia's minerals, energy and extractive industries.

SACOME supports the role of the Safeguard Mechanism in reducing emissions from large industrial facilities. Its settings should provide investment certainty, maintain Australia's international competitiveness and reflect what facilities can practically achieve as abatement technologies and enabling infrastructure become available.

The resources sector is capital intensive, internationally exposed and dependent on long-life assets and enabling infrastructure. Policy settings that change the cost or timing of emissions reduction directly impact investment decisions, domestic production and Australia's ability to retain and grow its mining and energy industries.

Summary of recommendations

SACOME recommends that the Australian Government:

- **Set the post-2030 baseline decline rate no higher than the current 4.9% annual rate**, based on an achievable pathway towards the 62% end of Australia's 2035 emissions reduction target, taking account of available abatement technologies and enabling infrastructure, production growth and international competitiveness.
- **Maintain flexible, least-cost compliance options**, including access to high-integrity ACCUs, SMC banking and borrowing, multi-year monitoring where needed, and effective cost containment beyond 2030.
- **Protect international competitiveness and address carbon and investment leakage**, including by ensuring TEBA arrangements properly recognise the leakage and competitiveness risks faced by energy and resource facilities. Do not require facilities receiving TEBA assistance to automatically catch up unless the Government can show this will not recreate the competitiveness risks the assistance was intended to address.
- **Retain the existing 100,000 t CO_2-e coverage threshold**. Any proposal to expand the Safeguard Mechanism to additional facilities should be subject to separate, broad consultation and detailed impact analysis.
- **Avoid new or duplicative reporting requirements**. Do not introduce mandatory abatement or compliance plans where the information is already available through existing Commonwealth reporting.

Recommendations

1. Set achievable post-2030 decline rates

SACOME supports providing early certainty about the Safeguard Mechanism's post-2030 settings. This is particularly important for capital-intensive industries making investment decisions over periods substantially longer than a five-year emissions target cycle.

However, SACOME does not consider that a proportional share of the national emissions reduction task should, by itself, determine the post-2030 baseline decline rate.

There are only two years of data following the 2023 reforms. Net Safeguard emissions fell by 7.4% in 2023-24 and a further 5.5% in 2024-25, and are currently projected to reach 90 Mt CO_2-e in 2030, compared with the 100 Mt target. This provides a strong case for stability rather than imposing additional obligations before there is a clearer picture of how the current settings are working.

The consultation paper also considers setting the Safeguard target towards the lower end of Australia's 62-70% 2035 target range, while setting the baseline decline trajectory towards the upper end. SACOME does not support this approach.

Safeguard facilities include some of Australia's hardest-to-abate industries. Major emissions reductions can depend on replacing equipment that is designed to operate for decades, using technologies that are not yet commercially available at scale, and having access to enabling infrastructure. For South Australian resources projects, this can include reliable and competitively priced low-emissions electricity, transmission capacity, water and common-user infrastructure, electrified mining and processing equipment, and technologies such as carbon capture and storage. These changes can have long development, approval and delivery timelines.

For multi-metals processing facilities, where a significant proportion of Scope 1 emissions can arise from coke and coal used in core metallurgical processes for which commercially deployable alternatives are currently limited or unproven. Emissions reductions at these facilities may therefore occur through major changes in technology rather than through incremental annual reductions. Safeguard settings need to recognise these pathways and support major emissions-reduction investments as technologies become commercially viable, rather than assuming emissions can decline at a constant annual rate.

A stronger emissions reduction obligation cannot overcome these practical constraints. Increasing the cost of emissions can strengthen the incentive to invest in abatement where an alternative is available, but it cannot make unavailable technology commercially deployable or deliver enabling infrastructure sooner.

For these reasons, SACOME supports an achievable emissions reduction pathway consistent with the 62% target and considers that the post-2030 baseline decline rate should be no higher than the current 4.9%. SACOME does not support setting the baseline decline trajectory towards the upper end of the 62-70% target range.

In setting the post-2030 decline rate, the Government should also take account of:

- the practical and commercial availability of abatement technologies;
- the investment and replacement cycles of major industrial assets;

- the availability and cost of enabling energy and infrastructure;
- expected production growth and new investment;
- international carbon costs and the competitiveness of Australian production; and
- how the emissions reduction task is shared across the Australian economy.

The objective should be to achieve Australia's emissions targets at the lowest overall economic cost. Where common technology or infrastructure barriers are limiting industrial emissions reductions, the Commonwealth should work with industry and State Governments to address them.

2. Maintain flexible, least-cost compliance options

Flexible compliance is an important part of the Safeguard Mechanism's design and should remain so after 2030.

SACOME has consistently supported a framework that enables businesses to determine the most efficient way to meet their emissions obligations. This is particularly important where direct abatement is technically unavailable, commercially unviable or dependent on major capital investment that cannot be delivered within a single compliance year.

ACCUs and SMCs

SACOME does not support quantitative limits, discounting or other arbitrary restrictions on the use of high-integrity ACCUs for Safeguard compliance.

The purpose of a market-based mechanism is to allow emissions reductions to occur where they can be achieved efficiently while retaining an incentive for facilities to invest in direct abatement. Restricting access to ACCUs may increase the cost of compliance, but it does not make an unavailable technology commercially available or accelerate delivery of enabling infrastructure.

This is particularly relevant to hard-to-abate resources and industrial facilities. Where direct abatement is not presently feasible, access to credits provides a legitimate compliance pathway while longer-term projects are developed.

SACOME also supports continued banking of SMCs beyond 2030 and across the post-2030 emissions reduction period. This flexibility is particularly important for facilities pursuing major transformation projects, where emissions reductions may occur through a substantial step-change rather than incremental annual reductions. The consultation paper itself notes that continued banking can encourage earlier emissions reduction and reduce market volatility.

Borrowing should similarly remain available, and the mechanism should retain the capacity to consider future access to high-integrity international units under Article 6 as international markets and integrity arrangements mature.

Multi-year monitoring

Multi-year monitoring should remain available beyond 2030 where a facility can demonstrate that it supports delivery of genuine longer-term abatement.

Industrial emissions reduction does not necessarily occur in smooth annual increments. Major projects can require several years of engineering, approvals, procurement, construction and commissioning before delivering a substantial step-change in emissions.

Removing multi-year monitoring because businesses have had time to prepare since 2023 does not address this underlying feature of industrial investment. The relevant question should be whether the arrangement supports a credible emissions-reduction pathway, rather than whether it extends beyond an arbitrary date.

Cost containment

SACOME also supports a durable cost-containment mechanism beyond 2030.

The consultation paper identifies that the current pool of ACCUs may provide temporary price stability but may not provide ongoing protection as compliance demand increases. It notes that projected holdings could be less than one year's ACCU demand and that the existing source of units flowing into the cost-containment pool ends in 2030.

A credible long-term backstop against extreme carbon-price volatility is important to investment certainty. It should be designed at a level that continues to encourage commercially viable direct abatement while protecting businesses from exceptional market events.

3. Protect international competitiveness and address carbon and investment leakage

SACOME strongly supports retaining effective protections for trade-exposed industries.

Carbon leakage is not limited to an existing Australian producer losing domestic market share to imports. For the resources sector, investment leakage is also significant: globally mobile capital can be directed towards competing jurisdictions where equivalent projects face lower regulatory or carbon costs.

This matters to South Australia as it seeks investment across mineral extraction, critical-minerals processing, steel, energy and other emissions-intensive industries.

The consequences of carbon and investment leakage can also extend beyond the loss of individual projects or investment. For metals processing, Australian facilities may become unviable, and production may shift offshore without reducing global emissions, while Australia loses strategically important domestic metals processing capability.

Trade-exposed baseline adjustments

The Review provides an opportunity to reconsider whether the current TEBA framework adequately identifies activities exposed to carbon and investment leakage.

The consultation paper notes that 23 manufacturing facilities have received TEBA status since the reforms commenced, while no non-manufacturing facility has received an adjustment. This warrants consideration of whether the current facility-level cost tests adequately capture the investment exposure faced by internationally traded resources industries.

SACOME considers that the TEBA framework should properly account for the carbon and investment leakage risks faced by resources and energy facilities. Eligibility and assistance arrangements should recognise genuine exposure to international competition and should not assume that this exposure can be measured solely through the immediate impact of Safeguard costs on an individual facility's revenue or earnings.

Any changes to TEBA arrangements should also avoid transferring an additional emissions reduction burden to facilities that are not eligible for assistance.

TEBA catch-up

SACOME does not support introducing an automatic requirement for facilities that have received TEBA assistance to subsequently "catch up" to the baseline trajectory applying to other facilities.

The purpose of TEBA is to moderate the emissions reduction obligation where application of the standard decline rate creates unacceptable carbon-leakage or competitiveness risks. An automatic catch-up could effectively convert that adjustment into a deferred compliance obligation.

Before any catch-up mechanism is introduced, Government should demonstrate that it will not recreate the competitiveness or leakage exposure that justified the adjustment in the first place.

If the facility or sector's trade exposure has materially changed, this can be considered when future assistance is assessed. SACOME does not support assuming in advance that previously deferred reductions should subsequently be recovered irrespective of the facility's competitive circumstances.

Border Carbon Adjustment

SACOME supports further assessment of a Border Carbon Adjustment for commodities where there is demonstrated carbon-leakage risk, including cement and clinker, steel and iron.

A well-designed BCA could help establish more comparable carbon costs between Australian producers and imports and reduce the risk of Australian production being displaced by imports without reducing global emissions.

SACOME therefore does not support automatically withdrawing TEBA protection when a BCA is introduced. Any transition from TEBA to a BCA should occur only where Government can demonstrate that the BCA provides equivalent and effective protection against the relevant carbon and investment leakage risks.

4. Retain the existing coverage threshold and separately consult on any expansion

SACOME does not support changing the Safeguard Mechanism's coverage threshold through this Review.

The Review has been presented as an assessment of whether the 2023 reforms are working as intended and how existing settings should be calibrated beyond 2030. Lowering the threshold from 100,000 t CO_2-e would be qualitatively different. It would materially expand the regulatory scope of the Safeguard Mechanism by bringing businesses and facilities currently outside the scheme into it.

This should not be treated as a technical recalibration of the existing mechanism.

Businesses not currently covered by the Safeguard Mechanism would have had limited reason to participate in a consultation concerned principally with the operation of the existing scheme. Those businesses should have a proper opportunity to assess and respond to the implications of becoming subject to it.

SACOME therefore recommends that the existing 100,000 t CO_2-e threshold be retained through this Review.

If Government wishes to consider expanding Safeguard coverage, it should undertake a separate and comprehensive consultation supported by detailed analysis of:

- the number, sectors and characteristics of facilities that would become covered;
- the additional emissions reductions expected to result;
- the availability and cost of abatement at those facilities;
- compliance and administrative costs;
- impacts on project economics, investment and international competitiveness;
- interactions with existing NGER obligations; and
- appropriate commencement and transitional arrangements.

Any expansion should proceed only where Government can demonstrate that the additional emissions reductions provide a material net benefit after these impacts are taken into account.

If Government nevertheless determines through this Review that the threshold should be lowered, substantial advance notice and transitional baseline arrangements will be essential. DCCEEW acknowledges that immediately applying the accumulated emissions reduction contribution to a newly covered facility could create a significant and abrupt first-year compliance obligation.

Newly covered facilities should therefore be provided with an appropriate transition to the baseline trajectory applying to existing facilities.

5. Avoid new and duplicative reporting

SACOME does not support introducing a new mandatory requirement for Safeguard facilities to prepare abatement or compliance plans where the information sought is already available through existing regulatory and Commonwealth reporting requirements.

Safeguard facilities already operate within substantial Commonwealth emissions measurement and reporting requirements, including NGER and the Safeguard Mechanism itself, while many are also subject to mandatory climate-related financial disclosure.

Creating another reporting obligation should not be the default means of improving Government's visibility of future abatement or credit demand.

Before introducing any additional reporting requirement, Government should identify what additional information is required and whether it can be obtained through existing reporting mechanisms. Where additional information is genuinely necessary, existing requirements should be amended or coordinated wherever possible rather than creating a separate reporting obligation.

Conclusion

The first two years of the reformed Safeguard Mechanism show that emissions are falling and the mechanism is currently projected to outperform its 2030 target.

The priority for the Review should be to provide businesses with a stable and investable settings beyond 2030 while ensuring Australia's emissions reduction objectives are achieved at the lowest overall cost.

For South Australia's resources sector, this means setting a post-2030 decline rate no higher than 4.9% that reflects what industries can practically and commercially achieve; maintaining flexible, least-cost compliance options; protecting internationally exposed industries from carbon and investment leakage; avoiding unnecessary expansion of regulation and duplicate reporting; and recognising the time needed to deliver the infrastructure and technologies required to reduce emissions.

These settings will be important to reducing emissions while maintaining investment in the mining, energy and resources industries needed to support Australia's transition to net zero.