

# Are you ready for the Safeguard Mechanism reforms?

Reforms to the Safeguard Mechanism (SGM) were passed by the Australian Parliament in May 2023 and are effective from 1 July 2023. The SGM is the Australian Government's policy for reducing emissions at Australia's largest industrial facilities. It sets legislated limits—known as baselines—on the greenhouse gas emissions of these facilities. The Government has reformed the Safeguard Mechanism to gradually reduce the baselines of covered facilities using set decline rates to help Australia reach net zero emissions by 2050.

PwC Australia is here to help you understand the new Safeguard Mechanism changes and what they mean for your business.

## Who do the reforms affect?

Australia's largest industrial facilities - being those facilities emitting more than 100,000 tonnes of carbon dioxide equivalent (CO<sub>2</sub>-e) emissions each year. Covered facilities (currently around 215 facilities) must keep their emissions below a legislated baseline which will change over time.

## About the mechanism reforms

### ► 1. What is baseline?

Australia's largest industrial facilities - being those facilities emitting more than 100,000 tonnes of carbon dioxide equivalent (CO<sub>2</sub>-e) emissions each year. Covered facilities (currently around 215 facilities) must keep their emissions below a legislated baseline which will change over time.

Under the Safeguard Mechanism, facilities are given an intensity baseline which is the reference point against which net-emissions will be assessed. Net-emissions are the covered emissions from the operation of the facility plus any Australian Carbon Credit Units (ACCUs) issued in relation to abatement activities occurring at the facility, less any ACCUs or Safeguard Mechanism Credits (SMCs) surrendered for the facility, for that year.

Facilities unable to keep emissions at or below their baselines will need to either: a) surrender SMCs or ACCUs to make up the difference; or b) seek to apply the banking and borrowing or Multi-year Monitoring Period (MYMP) provisions of the reformed SGM to maintain ongoing compliance.

### ► 2. Does your company qualify for tailored treatment as a trade exposed facility?

Tailored treatment is available for emissions-intensive, trade-exposed (EITE) facilities which will be based on the principle of comparative impact.

There are two categories of EITE facilities:

- Trade Exposed facilities, which will include all facilities whose main production variable is trade exposed; and
- Trade Exposed Baseline Adjusted (TEBA) facilities, which are a subset of trade-exposed facilities facing an elevated risk of carbon leakage.

TEBA facilities will be eligible to apply to the Clean Energy Regulator (CER) for a discounted decline rate based on the relevant scheme impact metric associated with the facility's primary production variable, in particular whether this is considered a manufacturing production variable.

- **Manufacturing facilities:** may be eligible for a reduced baseline decline rate of as low as 1% depending on the scheme cost to the facility as a percentage of the facility EBIT; and
- **Non-manufacturing facilities:** may be eligible for a reduced baseline decline rate of as low as 2% depending on the scheme cost to the facility as a percentage of the facility revenue.

### ► 3. The difference between Safeguard Mechanism Credits and offsets and ACCUs?

SMCs are a new type of unit created and used within the Safeguard Mechanism - it will represent one tonne of carbon dioxide equivalent emissions, but an SMC is not a carbon offset. SMCs are generated by facilities whose net-emissions are below their emissions baseline in any given year.

**SMCs are not ACCUs and cannot be used outside the Safeguard Mechanism.**

## How we can help

There are a number of areas where we can provide support with the introduction of these reforms



Performing calculations on Safeguard impacts for forecasted baselines, emissions & financial implications



Assistance with your decarbonisation strategy, options and pathways to consider



Providing assurance over applications for site specific emissions intensity & TEBA facility determinations and audits of regulatory reports for facilities with high emissions.



Assistance with your carbon strategy

## Safeguard Mechanism reforms timings and proposed considerations

Preparation	Year 1: 2023-24			Subsequent years	
<ul style="list-style-type: none"> <li>24 February - Close of consultation period</li> <li>Companies encouraged to forecast exposure and develop a plan</li> <li>Final Safeguard Mechanism Rules released 5 May 2023.</li> </ul>	<ul style="list-style-type: none"> <li>Reformed Safeguard Mechanism commences 1 July 2023</li> <li>4.9% decline rate begins (unless a discounted decline rate is awarded)</li> <li>ACCUs available to purchase from the Government for SGM facilities that have exceeded their baseline at \$75 in 2023-24, increasing with CPI plus 2% each year</li> </ul>	<ul style="list-style-type: none"> <li>Deadline for facilities to apply for either a production-adjusted or calculated baseline under existing rules to cover 2022 - 2023</li> </ul>	<ul style="list-style-type: none"> <li>All facilities must apply for a new site-specific emissions intensity, even those who previously applied for a production-adjusted baseline to cover 2022-23</li> </ul>	<ul style="list-style-type: none"> <li>All deadlines below follow the year in which they apply                             <ul style="list-style-type: none"> <li>31 October - EITE status applications due</li> <li>15 November - MYMP applications due</li> <li>28 February - Borrowing applications due</li> <li>31 March - ACCU and SMC surrender deadlines</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>4.9% decline rate applied every year (unless differential decline rate is awarded)</li> <li>ACCUs available to purchase from the Government for SGM facilities that have exceeded their baseline at \$75 in 2023-24, increasing with CPI plus 2% each year</li> </ul> <p>Review to be conducted to assess:</p> <ul style="list-style-type: none"> <li>The impact of resetting and declining baselines</li> <li>Cost of domestic offsets and sufficiency of cost containment measures</li> <li>Use of international carbon units</li> <li>Flexibility mechanisms such as banking and borrowing and the MYMP</li> </ul>

### Actions for consideration

<ul style="list-style-type: none"> <li>Begin to forecast emissions, production, revenue and EBIT out to FY30</li> <li>Calculate facilities forecasted exposure</li> <li>Consider decarbonisation projects in the pipeline and future capex requirements</li> </ul>	<ul style="list-style-type: none"> <li>Consider ACCU/SMC strategy based on expected exceedance</li> <li>Engage with finance to start provisioning/considering asset impairment</li> <li>Understand the Government ACCU price</li> </ul>	<ul style="list-style-type: none"> <li>Complete application for production-adjusted baselines where applicable</li> <li>Consider calculation templates for capturing site-specific emissions intensities</li> </ul>	<ul style="list-style-type: none"> <li>Engage an auditor to perform assurance over the site-specific emissions intensities</li> <li>Engage auditor for Audit of regulatory reports for facilities with high emissions</li> <li>Engage an auditor to assure TEBA application where applicable</li> </ul>	<ul style="list-style-type: none"> <li>Consider the options available under the SMC to reduce or provide relief when there is an expectation that the baseline will be exceeded</li> <li>Ensure there are sufficient ACCU's/SMC's to be surrendered</li> </ul>	<ul style="list-style-type: none"> <li>Review the government ACCU price and consider if there are required changes to the financial provisioning/impairment or if there are changes to the expected cost impacts that haven't been previously considered</li> </ul>	<ul style="list-style-type: none"> <li>Review baseline calculations, forecasts and communication from the CER to inform future strategies in relation to the SGM</li> </ul>
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### For further information about the Safeguard Mechanism reforms refer:

[National Greenhouse and Energy Reporting \(Safeguard Mechanism\) Amendment \(Reforms\) Rules 2023 Fact Sheet: Safeguard Mechanism Reforms](#)

#### PwC thought leadership:

[Will your carbon strategy be successful?](#)

[Safeguard Mechanism Overview](#)

[Safeguard Mechanism reforms and what you need to know about their impact on new and growing industrial facilities](#)

## Contact us to learn more about the impact of the Safeguard Mechanism reforms on your business



**Adam Cunningham**  
Partner, ESG Assurance  
Registered Greenhouse  
and Energy Auditor

adam.cunningham@au.pwc.com  
+61 417 131 110



**Alicia Clarke**  
Partner, Energy Transition  
Decarbonisation, Risk  
and Governance

alicia.clarke@au.pwc.com  
+61 407 964 089



**Katelyn Bonato**  
Partner, Energy Transition  
Decarbonisation Strategy

katelyn.bonato@au.pwc.com  
+61 402 941 913



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