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Business Council of Australia

BCA Submission

Safeguard Mechanism Review Consultation Paper

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Overview

The Business Council of Australia (BCA) is pleased to provide comment on the Department of Climate Change, Energy, the Environment and Water (the Department's) Safeguard Mechanism Review Consultation Paper (the consultation paper).

The BCA is ambitious for Australia. We aspire to drive prosperity for all Australians, leveraging our collective expertise and influence to shape a bright and innovative future for businesses, industries and communities. We are committed to working towards an Australia that is globally competitive, productive and fair.

Productivity is the primary factor which will define Australians' future quality of life. Simply put, there are 'no free lunches' and we must be able to produce more with what we have if we are to sustain growing wages and national prosperity. If businesses cannot run efficiently and invest with confidence to strengthen their operations, the cost of what they are producing is higher than necessary. If the opposite is true, however, higher wages can be afforded without fuelling inflated prices.

Australian productivity has not meaningfully improved in a decade and today, our productivity growth languishes well behind most comparable nations — including the United States, United Kingdom, Germany, and France. Other nations are winning the business investment that can make our efforts more productive, in new technologies and capabilities.

The BCA endorses Australia's participation in the Paris Agreement and supports Australia's climate legislation enshrining this participation.

The BCA report[1], *Achieving a net zero economy* was supportive of Australia adopting ambitious interim emission reduction targets consistent with the Government's 2030 target of 43 per cent below 2005 levels.

The BCA report[2], *Australia 2035 – Maximising Our Potential* provides an evidenced base in relation to the measures required to deliver the Government's 2035 emission reduction target of 62 to 70 per cent below 2005 levels. Key findings from this report include the following.

- New capital investment to deliver Australia's emission reductions to 2035 is in the order of $400 to $500 billion (for all sectors of the Australian economy).
- The business case for many low emission technologies needs significant additional funding support before these technologies can be deployed and adopted commercially, notwithstanding the possibility of new technologies emerging and cost reductions in existing technologies over the next ten years.
- The efficiency and effectiveness of Australia's regulatory approvals system need to improve significantly to enable a rapid acceleration in build rates of electricity and energy and other low emission technology and infrastructure.
- A comprehensive approach to scaling skilled labour capacity through cross industry reskilling, international migration, vocational education and training and university programs, is a critical enabler to the transition.
- If target ambition is not matched with policy ambition, if we do not get the fundamentals right and if we fail to attract the investment needed over the next decade, then Australia risks squandering its green economic opportunity and locking itself into a disorderly and more costly transition to net zero.

Key takeaways

1. The review should have particular regard for Australia's international competitiveness and broader investment attractiveness when making decisions regarding the Safeguard Mechanism's design and operation beyond 2030.

[1] Achieving a net zero economy - Business Council of Australia
[2] Australia 2035 – Maximising Our Potential - Business Council of Australia

- The ability of our industrial sector to invest capital in Australia's transition to net zero is heavily dependent on maintaining its international competitiveness over the coming decades.
- Australia's incumbent industrial businesses are best placed to be making the large capital investments necessary for a successful transition to net zero, and many of Australia's major trading partners / competitors do not yet have equivalent carbon limits on their industrial sectors.
- Our industrial sector's international competitiveness will be negatively and unnecessarily impacted by any uncertain or unstable Safeguard policy settings overtime.
- Our nation can ill afford to introduce, and we do not support, changes to the Safeguard's policy settings that make Australia even less internationally competitive.

2. The Safeguard's existing policy architecture is fit for purpose and therefore well positioned to deliver on its 2050 objectives efficiently and effectively.
   - The BCA concurs with the Department's assessment that reformed policy settings are working as intended and that the Safeguard is on track to deliver its 2030 emissions targets.
   - The biggest risk for the Safeguard and whether it is on track to deliver its legislated outcomes relates to the effectiveness and durability of Australia's broader climate policy framework.
   - Limiting access to the use of ACCUs, qualitatively or quantitatively, in the absence of addressing the barriers to direct industrial decarbonisation, would amplify Safeguard compliance costs in the short term and raise the economy wide cost of Australia's decarbonisation pathway over the longer term.
   - Prescribing or explicitly preferencing levels of onsite/own abatement in the initial years of a multidecadal policy risks raising transition costs and deterring capital investment in industrial decarbonisation over the long term.
   - Additional reporting requirements as part of Safeguard policy settings will increase businesses' reporting burden without adding to information already available in the public domain.
   - Active consideration of using international offsets for Safeguard compliance from as early as 2030 is warranted, subject to alignment with the rules for counting such offsets towards Australia's national determined contribution under the Paris Agreement.
   - The Safeguard's current banking and borrowing arrangements are adequate and should continue beyond 2030.
   - Safeguard facilities should be able to apply to the Clean Energy Regulator for access to multiyear monitoring beyond 2030 and a period of 5 to 10 years should also be considered.
   - There is a risk that the current cost containment measure will not provide ongoing price risk management beyond 2030 without replenishment of the limited holding of ACCUs and it is critical to Safeguard policy certainty and stability that this risk is addressed well in advance and with full policy predictability and transparency.
   - Existing TEBA arrangements are broadly appropriate given the Government's fixed budget approach to the Safeguard's design, notwithstanding possible minor changes to TEBA's administration to improve its carbon leakage risk protections.
   - If fundamental TEBA design elements were to be considered, then the fixed budget approach must also be relaxed to avoid non TEBA facilities having to do more than a proportional share of industrial emission reductions.
   - Any decision to lower the coverage threshold of the Safeguard would need to balance the benefits of capturing more emission point sources across the economy against the costs of regulatory requirements and compliance for newly covered facilities. We do not consider that the benefits outweigh the costs at a time when Australia faces extreme productivity challenges.

3. Safeguard policy settings for 2030 to 2035 (and beyond) must be very carefully considered and in any case must not exceed 4.9 per cent.
    - In light of Australia's existing competitiveness, investment attraction and productivity challenges the Safeguard's contribution to Australia's 2035 target must be very carefully considered and in any case must not exceed 4.9 per cent — the Government's priority must be improving Australia's investment competitiveness to attract the capital required to deliver the transition.
    - Baseline decline rates that derive from the Safeguard's proportional share of the national emission reduction task should be sense checked against the expected performance of core enablers and the broader emission reduction policy framework between now and 2035.

Net zero is an investment challenge

Among the most important challenges and opportunities facing our nation is facilitating an orderly transition to net zero by 2050 — one that best serves our economy and our community. How we transition will have a strong bearing on our emissions levels, our competitiveness as a nation, productivity growth and living standards over the long term.

A stable and durable climate policy framework is crucial in guiding and attracting investment in the transition. We support the Department's acknowledgement of this is in the consultation paper.

> *In undertaking the review, policy certainty and stability are a priority. … Maintaining stable policy settings and a measured and predictable emissions reduction trajectory to net zero underpins long term investment decisions.*[3]

The BCA report[4], *Global Investment Competitiveness Index — How Australia can become a top 10 investment competitor to strengthen our quality of life,* describes Australia's investment challenge for the next decade as follows.

> *Capital is increasingly mobile in a more competitive world. Businesses can choose where to invest, expand and create jobs and they do so where it is easiest, most predictable and most competitive to operate. That investment matters because it underpins almost everything Australians care about.*[5]

The BCA report[6], *Australia's flagging competitiveness and productivity — How to turn it around,* describes the connection between competitiveness, investment and productivity as follows.

> *You cannot be more productive without securing more investment from businesses by being more competitive, so we must take significant steps to make that investment more attractive by cutting through red tape and regulation, building more flexible workplace laws, and reforming our tax system to be more efficient*

The Minister has indicated that:

> *The Albanese Government is reviewing the Safeguard Mechanism to ensure it continues to deliver the emissions reductions Australia needs while supporting a strong and competitive industrial base.*[7]

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[3] DCCEEW, Safeguard Mechanism Review Consultation Paper, p.2.
[4] https://www.bca.com.au/reports-submissions/reports/bca-global-investment-competitiveness-index/
[5] BCA, BCA Global Investment Competitiveness Index — *How Australia can become a top 10 investment competitor to strengthen our quality of life,* February 2026, p.2.
[6] BCA, *Australia's flagging competitiveness and productivity — How to turn it around,* November 2024, p.6.
[7] Keeping industry competitive while cutting emissions | Ministers

Australia needs to be one of the world's best places to invest, innovate, grow a business and create jobs. Today, Australia ranks 21st among 42 countries for global investment competitiveness. Critically, we are behind the United States, the United Kingdom, Canada and New Zealand. Our ambition is to reach the top ten by strengthening the foundations that support investment, productivity and long term prosperity. This is not about a ranking for its own sake. Investment builds homes and infrastructure, supports innovation, creates better paying jobs and expands the economic base that underpins Australians' standard of living. It is also Australia's broader global competitiveness for investment that will help or hinder our ability to meet ambitious emission reduction targets.

The BCA report, *Australia 2035 – Maximising Our Potential*, estimates that new capital investment to deliver Australia's emission reductions to 2035 is in the order of $400 to $500 billion (for all sectors of the Australian economy). The report also identifies six critical enablers that policy must continue to support to unlock this investment: i) closing the funding gap; ii) approvals and social licence; iii) scaling a skilled workforce; iv) securing supply of technology; v) coordination and collaboration; and vi) improving capital excellence.

When making decisions regarding the Safeguard's design and operation beyond 2030, the BCA encourages policy makers to consider the Safeguard's interaction with Australia's broader suite of climate, energy, industry, taxation and industrial relations policies. An array of related policy and regulatory interventions have a cumulative impact on current and future project risk and economics. For example, the introduction of a domestic gas reservation scheme has implications for cost impacts flowing from the safeguard mechanism. An integrated and sustainable approach to the policy landscape, which necessitates a whole of government consideration, is vital to attracting investment to Australia.

We note that the cost to Australian business and the economy of complying with federal regulation was estimated to be $160 billion or nearly 6 percent of GDP in 2025, up from $65 billion or 4.2 percent of GDP in 2013.[8]

Our nation can ill afford to introduce, and we do not support, changes to the Safeguard's policy settings that make Australia even less internationally competitive in the race to secure global capital.

The Safeguard's policy architecture is fit for purpose

The reformed Safeguard has been designed to achieve a net emission reduction target consistent with the net zero target for the economy in 2050 (and therefore the goals of the Paris Agreement).

The Safeguard Mechanism is, in and of itself, a powerful incentive for covered facilities to invest in the development and deployment of onsite industrial abatement technologies over time because covered facilities are paying a cost for emissions above their baseline each year and because this baseline is declining each year.

The BCA concurs with the Department's assessment that reformed policy settings are working as intended and that the Safeguard is on track to deliver its 2030 emissions targets. As such, the BCA does not support any changes to the Safeguard's policy settings, beyond minor administrative improvements where identified. The biggest risk for the Safeguard and whether it is on track to deliver its legislated outcomes relates to the effectiveness and durability of Australia's broader climate policy framework.

While the Safeguard directly targets emission reductions from the large industrial sector, other policy levers — including the Australian Carbon Credit Unit Scheme, National Reconstruction Fund's Net Zero Fund, Powering the Regions Fund, Australian Renewable Energy Agency and Clean Energy Finance Corporation — play a critical role in facilitating emission reductions from sectors.

Industrial facility abatement cost curves are not linear. For many facilities, their lower cost options will be substantially deployed by 2030, after which remaining onsite abatement would involve materially higher

[8] Mandala, $160 billion and counting: The cost of Commonwealth regulatory complexity, November 2025, Report prepared for the Australian Institute of Company Directors.

abatement costs. The development and deployment of industrial onsite abatement technologies is impacted by a range of barriers that vary across industrial subsectors.

1. High capital costs with long or negative payback profiles, relative to the cost of replacing incumbent technology.
2. The competition for capital within a business for a range of new projects or a given project in a more favourable jurisdiction (in the case of multinational businesses).
3. High implementation, operational and safety risks, particularly for 'first of a kind' technologies being implemented in brownfield facilities that must maintain production and work within a limited existing physical footprint.
4. Inadequate availability of enabling energy and other necessary infrastructure related to hydrogen and carbon sequestration and storage (as examples).
5. Slow and inefficient regulatory and approvals processes relating to technologies and /or enabling infrastructure.
6. High uncertainty of future demand and willingness to pay for low emissions products domestically and internationally.
7. The perceived certainty and stability of the policy support framework to address the factors above.

Government policy directly targeting barriers is the only effective and efficient way to accelerate the development and deployment of industrial onsite abatement technologies.

The augmentation of existing policies or creation of new policies where necessary should be technology neutral (in aggregate) and administered so that the actual allocation and dispatch of government support is 'fit for purpose' with respect to the specific barrier(s) being addressed.

Flexible compliance arrangements

It is important for businesses to have clear and practical options for meeting their Safeguard obligations with as much flexibility as possible, while not compromising delivery of the Safeguard's emissions targets. This flexibility reduces costs and gives businesses confidence that there is an achievable and reliable compliance pathway available to them as they navigate their net zero 2050 pathway.

Domestic offsets

The use of offsets under the Safeguard improves economic efficiency because it allows emissions reductions to occur where and when they are least cost.

We note that Australia's carbon crediting scheme is fundamentally sound and plays an important role in Australia's journey to net zero, according to the Authority's 2026 review of the Australian Carbon Credit Unit (ACCU) Scheme. The recent findings reinforce earlier assessments of the scheme and are consistent with both the Authority's 2023 review and the 2022 independent Chubb Review.[9]

The consultation paper argues that a high availability of ACCUs could increase the cost of Australia's industrial sector decarbonisation pathway between now and 2050.

> *This readily available stock of ACCUs could divert the industrial sector away from the trajectory needed to meet Australia's long-term targets. This could make future emissions reduction efforts*

[9] CCA, 2026 Review of the Australian Carbon Credit Unit Scheme, Enhancing stability and integrity of the Australian Carbon Credit Unit Scheme.
Published date: 1 Sep 2026

more costly and reduce the availability of ACCUs for when they are needed to offset harder to abate processes over time.

This is important, because the industrial sector is characterised by long-lived assets, so investment decisions made today can affect emissions for decades. For many Safeguard Mechanism facilities, there may be only one or two investment cycles between now and 2050.[10]

"New policy measures for ACCU use" such as qualitative or quantitative restrictions are not an effective way to accelerate industrial decarbonisation. Simply limiting access to the use of ACCUs, in the absence of addressing the barriers to direct industrial decarbonisation, would amplify Safeguard compliance costs in the short term and raise the economy wide cost of Australia's decarbonisation pathway over the longer term.

In our view, policy makers must avoid changes to the Safeguard policy settings that attempt to effectively 'micromanage' the mix of own onsite abatement, safeguard mechanism credit (SMC) and ACCUs used by facilities over time to meet their Safeguard Mechanism obligation. Private businesses are in a much better position to manage an efficient mix of abatement over time precisely because they have long lived assets and shareholder capital at risk and therefore strong commercial drivers to access the best available information regarding abatement opportunities and cost.

It is also important not to unintentionally undermine the perceived value and integrity of the ACCU market for those participants outside the Safeguard voluntarily supporting additional abatement across the economy.

We note that the development of, and access to, a deep and liquid market for ACCUs will be crucial to the achievement of least cost abatement outcomes for the economy. We also note that assessments of onsite industrial abatement only make sense over industrial investment timeframes (typically 5 to 15 years) as opposed to annual assessments of facility emissions. For example, a business may be taking credible action toward onsite facility abatement if it is developing engineering studies, securing approvals, trialling technology, negotiating energy or feedstock supply, or preparing investment cases, years in advance of actual onsite emission reductions.

The appropriate role and focus of policy makers are to ensure that the Safeguard Mechanism and ACCU Scheme are robust regulatory frameworks supported by an effective Clean Energy Regulator and to minimise regulatory risk (and associated risk premiums) by providing enduring transparent and predictable policy signals.

This will drive two very important outcomes.

1. Maximise the supply of abatement options and ensure the integrity of abatement outcomes (whatever their source).
2. Incentivise least cost compliance with a stable and durable set of policy rules and parameters over time.

The integrity and efficiency of ACCU use within the safeguard relies on a single, liquid and fungible carbon market. Recent policy decisions that restrict the use of particular ACCU types by particular sectors introduce qualitative constraints that segment the carbon market, reduce fungibility, and undermine the stability and predictability of both mechanisms.

Provided the policy framework(s) is robust, the actual mix of abatement from year to year is not a reflection of the Safeguard's effectiveness in meeting its net emission reduction target. Policy effectiveness and durability will be greatly enhanced if policy makers take a long term view of policy outcomes consistent with achievement of net zero 2050.

Prescribing or explicitly preferencing levels of onsite/own abatement in the initial years of a multidecadal policy risks raising transition costs and deterring capital investment in industrial decarbonisation over the long term.

[10] DCCEEW, Safeguard Mechanism Review Consultation Paper, September 2026, p.13.

Current Safeguard policy settings require facilities using ACCUs to offset more than 30 per cent of their emissions to comply with their Safeguard obligations, to publicly report the reasons for this on the Clean Energy Regulators website.

Moreover, all corporations currently covered by the Safeguard are also covered by climate public disclosure requirements under the Corporations Act, which compels the publication of information relating to carbon abatement plans via annual reporting.

Additional reporting requirements as part of Safeguard policy settings will increase businesses' reporting burden without adding to information already available in the public domain.

International offsets

As acknowledged in the consultation paper, the global carbon market provides another potential source of carbon offsets that could be used for Safeguard compliance, subject to alignment with Articles 6.2 and 6.4 of the Paris Agreement.

The domestic carbon offset market in Australia has been developing in parallel with the global carbon offset market for over a decade. On the demand side these markets are linked given the high degree of substitutability (in many cases) between domestic and overseas carbon offset units.

In its submission to the Climate Change Authority's Review of international offsets consultation paper in 2022, the BCA made the following recommendations in support of voluntary domestic use of international offsets[11]:

- A long term strategic objective of the domestic framework governing the use of international offsets should be to maximise Australian businesses' and regional communities' potential benefit from the global carbon offset market.
- It is critical that the domestic framework governing the use of international offsets evolves with the prevailing global approach to criteria and standards underpinning the quality of carbon offsets.
- A fit for purpose domestic framework governing the use of international offsets needs a regular review cycle and a single set of criteria and standards to determine the environmental integrity of both international and domestic offset units.

Active consideration of using international offsets for Safeguard compliance from as early as 2030 is warranted, subject to alignment with the rules for counting such offsets towards Australia's national determined contribution under the Paris Agreement.

Intertemporal flexibility and cost containment

It is important for businesses to have flexibility around the timing of their emissions reduction activities via the use of SMC banking, baseline borrowing and multiyear monitoring (compliance smoothing). This flexibility reduces costs and gives businesses confidence that there is an achievable and reliable compliance pathway available to them as they navigate their net zero 2050 pathway.

The Safeguard's current banking and borrowing arrangements are adequate and should continue beyond 2030.

Safeguard facilities should be able to apply to the Clean Energy Regulator for access to multiyear monitoring beyond 2030 and a period of 5 to 10 years should also be considered.

Cost containment measure

It is important that businesses have assurances about the maximum compliance cost they could face under the Safeguard. The existing cost containment measure operationalises this assurance by providing a 'backstop' or

[11] Review of international offsets consultation paper - Business Council of Australia

'safety net' allowing businesses to purchase ACCUs from the government at a fixed price, which are then automatically surrendered to meet their compliance obligations.

The measure was deliberately calibrated to prevent excessive price volatility (only) and manage upside price risk without deterring cost effective abatement and is fit for this purpose.

The appropriate level of the fixed price cap is a question for policy makers that involves a trade off between unacceptably high compliance costs for industry and additional costs for the taxpayer (via Government purchases of ACCUs). Government therefore needs to be satisfied that the annual fixed price escalation factor is appropriate in this regard.

As noted in the consultation paper, there is a risk that the cost containment measure will not provide ongoing price risk management beyond 2030 without replenishment of the limited holding of ACCUs.

It is critical to Safeguard policy certainty and stability that this risk is addressed well in advance and with full policy predictability and transparency. Safeguard facilities need to be confident that the cost containment measure will continue to be effective if and when the circumstances warrant its activation.

It also critical to ACCU scheme policy certainty and stability that the way in which replenishment of ACCU holdings is achieved, does not unduly interfere with ACCU market dynamics. It is preferable that Government does not become a dominant purchaser of ACCUs, and therefore active market participant, as it was previously under the Emission Reduction Fund auction architecture.

There are a number of options worth considering and evaluating, including the following.

- Government funding of emission reductions from emerging technologies, which need government support to be deployed, and which are not already covered by an ACCU method.
- Australian Government purchases of high integrity, Paris Agreement aligned international offsets as soon as practicable recognising that this may take some time before such supply options are available.

As a general point, the ACCU scheme's continued evolution and scaling up will mitigate the circumstances warranting activation of the cost containment measure. In its submission to the Department on the Carbon Credits and Other Legislation Amendment (Integrity and Transparency) Bill Consultation, the BCA made several recommendations to facilitate this evolution and scaling up, including the following.

- Establish an ACCU Market Statement of Opportunities — developed by an appropriate agency, such as the Clean Energy Regulator.
- Expand and accelerate Australia's method development pipeline by making more government resources available to the task and by increasing the efficiency of method development processes generally.
- Support greater confidence and trust in the ACCU scheme operation via greater transparency and timely disclosure of ACCU project level information.
- Maximise the potential scale of the ACCU scheme by taking a long term policy design perspective, including the development of a comprehensive and evolving long term carbon market strategy.
- Government must continue to provide and support clear messaging about the valid and positive contribution the ACCU scheme is making towards meeting Australia's emission reduction targets.

Policies to support trade exposed industries

As acknowledged in the consultation paper, differences in the coverage and effectiveness of climate policies globally — including between Australia and our trading partners — create a risk of carbon leakage, which can hamper global decarbonisation and lead to unnecessary costs for Australia's economy.

As acknowledged in the consultation paper, achievement of the Australia's industrial competitiveness and sovereign capability objectives requires a comprehensive and strategic industry policy response, within which

the Safeguard's trade exposed baseline adjustments (TEBA) are but one policy tool. As such TEBA should not be overly relied upon to address carbon leakage risk because it cannot do everything that is needed.

Trade exposed baseline adjustments

TEBA under the Safeguard have a vital role preventing carbon leakage and ensuring the continued financial viability of trade exposed facilities. Trade exposed Safeguard facilities can apply for TEBA status, which provides a reduced baseline decline rate for three years if their assessed scheme cost impact is above a prescribed threshold.

The consultation paper argues the link between TEBA eligibility and scheme costs could be contributing to businesses deferring on-site abatement.

> *This is because reducing emissions will reduce scheme costs, and this may prevent a facility from accessing TEBA assistance. A facility may prefer to delay emissions reduction projects to retain TEBA status and access to a lower baseline decline rate.*[12]

We note that the marginal abatement cost for TEBA facilities is not impacted by their reduced baseline decline rates and hence these facilities are still fully incentivised to invest in decarbonisation initiatives.

Existing TEBA arrangements are broadly appropriate given the Government's fixed budget approach to the Safeguard's design . However, the potential effectiveness of existing TEBA arrangements is constrained by the Safeguard policy's fixed budget approach to industrial emissions. That is, reductions in baseline declines rates for some facilities (for any reason) are necessarily compensated for by higher baseline declines rates for other facilities. Considerable industry consultation was undertaken to settle on the current arrangements as part of Safeguard reforms in 2023 which inevitably created winners and losers under a fixed budget approach.[13]

If additional support beyond TEBA is required to meet industry policy objectives such as, for example, maintaining sovereign capability in manufacturing, it should be delivered via industry support packages outside of the safeguard so as not to affect the efficiency of its market based design architecture.

Minor changes to the administration of TEBA should be considered where they can improve its carbon leakage risk protections. For example, to qualify for a reduced baseline, facilities are currently required to show that annual Safeguard compliance costs exceed 3 per cent of revenue or earnings. Given the often extreme volatility of revenue and costs experienced by many trade exposed businesses, a test based on an average over a few years could be more suitable for facilities producing commodity products. At the moment exchange rate and commodity price movements could mean a pass or fail test result from one year to the next.

If fundamental TEBA design elements were to be considered, then the fixed budget approach must also be relaxed to avoid non TEBA facilities having to do more than a proportional share of industrial emission reductions.

Coverage arrangements

As acknowledged in the consultation paper, any decision to lower the coverage threshold of the Safeguard would need to balance the benefits of capturing more emission point sources across the economy against the costs of regulatory requirements and compliance for newly covered facilities. At a time when Australia faces extreme productivity challenges — with the result that our industry must be as competitive as possible to attract more investment — the case for imposing additional regulatory requirements should be overwhelming before any decision to do so is taken. We do not consider that such a case can be made at this time.

[12] DCCEEW, Safeguard Mechanism Review Consultation Paper, September 2026, p.25.
[13] A fixed budget approach under the Safeguard means that the sum of all facilities' baselines must equal the scheme's overall emission reduction target.

To bring forward technically feasible emissions reduction in the economy, Government could consider permitting 'early opt in' to incentivise facilities that are not yet covered by the Safeguard Mechanism to bring forward abatement via the creation of SMCs.

Technical and administrative matters

BCA members propose a number of detailed technical and administrative improvements for consideration by the Government, and we have left it to individual company submissions to provide this information to this review.

A least cost 2035 calibration is vital to our economy

Policy makers need to determine a share of the 2035 emission reduction target to be borne by the large industrial sector in order to calibrate Safeguard baseline decline rates . This is because the large industrial sector is the only sector of the Australian economy facing a hard carbon limit. By definition, other 'uncovered' sectors of the economy will be responsible for the remaining share of the 2035 emission reduction target.

The policy aim should be to avoid a perverse set of incentives across Australia's climate policy suite that drive relatively expensive abatement from the industrial sector, ahead of lower cost abatement in other sectors.

If the share of abatement borne by the large industrial sector is inefficiently high, Australia's international competitiveness will be negatively and unnecessarily impacted as a result, at a time when this approach can least be afforded. The ability of our industrial sector to invest capital in the transition to net zero is heavily dependent on maintaining its international competitiveness over the coming decades. This is because many of Australia's incumbent industrial businesses are best placed to be making the large capital investments necessary for a successful transition to net zero, and because many of Australia's major trading partners / competitors do not yet have equivalent carbon limits on their industrial sectors.

The Safeguard's contribution to Australia's 2035 target should reflect the level of abatement large industrial facilities are expected to deliver based on the economy wide, least cost modelling that informed the Government's target setting process.

However, in light of Australia's existing competitiveness, investment attraction and productivity challenges the Safeguard's contribution to Australia's 2035 target must be very carefully considered and in any case must not exceed 4.9 per cent — the Government's priority must be improving Australia's investment competitiveness to attract the capital required to deliver the transition.

We note that some stakeholders have proposed moving to differentiated baseline decline rates across subsectors of the large industrial sector. To be clear, this is beyond existing trade exposed baseline adjusted arrangements, which have a specific 'carbon leakage' rationale for baseline differentiation. It is not entirely clear what objective such a proposal is seeking to achieve, and its implementation would be problematic and complex.

The potential for Safeguard facilities to surrender ACCUs for compliance or to trade baseline compliance with other facilities via SMCs, means that actual abatement reflects differences in abatement opportunities and costs across different subsectors without needing to adopt a differentiated approach to baseline decline rates.

This is an economically efficient and equitable design feature of the existing Safeguard because i) it drives least cost abatement across facilities and ii) all facilities effectively fund abatement above their own baseline (even if they do not undertake it directly onsite initially). They do so either by investing in their own onsite reductions, purchasing another facility's SMCs (surplus onsite reductions), or purchasing ACCUs which typically represents abatement outside of the industrial sector.

Because of number ii) above, adopting differentiated baseline decline rates across subsectors would be tantamount to differentiated burden sharing across large industrial firms in Australia. This raises complex equity issues and would involve policy makers effectively 'picking winners' on the basis of some objective(s) regarding accelerating the pressure on some incumbent economic activities (technologies) to decarbonise and decelerating the pressure on others.

Decline rates after 2030

Baseline decline rates that derive from the Safeguard's proportional share of the national emission reduction task should be sense checked against the expected performance of core enablers and the broader emission reduction policy framework between now and 2035. This would then lead to an estimated expected 2035 target contribution from the safeguard as opposed to starting with a specific percentage and then working back to set baseline decline rates.

BCA

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Thank you.