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Briefing Note: 2026-27 Safeguard Mechanism Review

Australia can reduce emissions while maintaining a globally competitive aluminium industry

The Australian Aluminium Council believes the core design should be maintained as the least-cost and least-complex option, supported by further incentives rather than additional compliance burdens.

The Council represents Australia's integrated bauxite mining, alumina refining, aluminium smelting and downstream processing industries. This value chain is critical to Australia's economic strength, regional communities, industrial capability and transition to a low-carbon future. As global competition intensifies, Australia's integrated aluminium industry is increasingly recognised as a national asset by both domestic and international partners.

The Review of the Safeguard Mechanism is an opportunity to examine its operation, but it is important to recognise that this is based on only two years of publicly available data. The Safeguard Mechanism is also not a whole-of-economy carbon price operating within a global emissions trading scheme. Attempting to use it as such risks policy failure and potential compliance costs that could result in an Australian industry at high risk of deindustrialisation.

The Council's position and priority areas

A. Trade Exposed Baseline Adjustments (TEBA) and carbon leakage

The Safeguard Mechanism must protect trade-exposed industries and sovereign capability identified through the Future Made in Australia agenda, including alumina and aluminium manufacturing. The continuation of transitional support through TEBA, differentiated decline rates and other flexibility mechanisms is essential to the viability of these industries while decarbonisation technologies mature and are deployed. This will need to include low or near zero decline rates and reduced baselines available for alumina and aluminium facilities where limited mitigation options exist to support the viability of these assets through the transition. *This will require clear signals beyond 2030 while providing adequate support for industry through transition and in the absence of comparative carbon policies being faced by competitors.*

B. No more than a proportional share and no higher baseline decline

Facilities covered by the Safeguard Mechanism should not contribute more than a proportional share of Australia's emissions reduction task. Maintaining the current default decline rate remains consistent with Australia's climate objectives.

C. Onsite abatement and flexibility

Scope 1 abatement for aluminium and alumina is challenging and non-linear. The Council supports the continued use of Safeguard Mechanism Credits (SMCs), ACCUs, banking, borrowing and multi-year flexibility arrangements. Higher compliance costs do not automatically create additional emissions reductions where the barriers are technological, infrastructural or economic.

Members are continuing to invest in decarbonisation activities, including at sites which have received a TEBA baseline, where these opportunities exist. The focus should remain on encouraging least-cost abatement while supporting ongoing investment in decarbonisation technologies.

D. Coverage and transition

More than 99 per cent of the vertically integrated aluminium industry's Scope 1 emissions are already covered by the Safeguard Mechanism. Any expansion of coverage should be proportionate, predictable and focused on delivering genuine emissions outcomes. Additional regulatory burden should only be introduced where it can materially contribute to Australia's transition objectives.

Six principles for an effective Safeguard Mechanism

1. Protect competitiveness

The Safeguard Mechanism must be viewed through the lens of international competitiveness. Australian industry is competing in a complex and unstable geopolitical environment, and where facilities are at risk of both carbon and investment leakage. The Safeguard Mechanism must protect the competitiveness of trade-exposed industries and sovereign capability identified in the Future Made in Australia agenda, including alumina and aluminium.

Failure to adequately provide support for industry through transition and in the absence of comparative carbon policies being faced by competitors simply exports Australia's emissions and jobs, while reducing Australia's emissions through closure.

2. Prioritise long term settings and certainty beyond 2030

Industry is making long term investment decisions to decarbonise. Policy certainty is critical to reduce the risk associated with these commitments - frequent policy change increases risk and undermines this.. Industry has a clearer understanding of the available technologies beyond 2030, and the challenges associated with their implementation than it did in 2023, and the pathway is proving more difficult, more expensive, and slower than may have been anticipated.

Clear signals are needed about how Australia's climate policy and Safeguard Mechanism settings will provide long term investment signals beyond 2030.

3. Retain measured flexibility

The Safeguard Mechanism was intentionally designed to reduce emissions at least cost by recognising that onsite opportunities vary significantly over time and between facilities. Restricting flexibility may increase the cost of compliance. Higher compliance costs do not automatically translate into greater emissions reductions or address underlying technological, infrastructural or economic barriers.

Evidence over the last two years shows that more flexibility is needed, not less – particularly for value chains with highly variable abatement opportunities.

4. Preserve the core design

The available evidence suggests the Safeguard Mechanism is working broadly as intended, with emissions falling while maintaining flexibility for industry.

On this basis, the policy position should remain with the status quo and avoid unnecessary complexity.

5. Maintain a Net Zero trajectory

The Paper outlines that both net and gross emissions are falling, and are on track to continue to fall, noting the Safeguard Mechanism was intentionally designed to reduce emissions at least cost. This reflects the time needed to adapt and respond to regulatory changes.

The target is net, not absolute, zero by 2050, supported by phased milestones.

6. Do not prioritise one type of abatement as better than another

Decarbonisation is rarely linear; it may involve step changes, acceleration, or volatility. It is not economically efficient to prioritise one type of abatement over another as being “better” where there is no evidence of it delivering a superior economic nor abatement outcome.

The objective should be to preserve strong incentives for real emissions reduction while ensuring policy settings do not inadvertently weaken the industrial base required to support Australia's long-term transition.

The Council believes Australia can simultaneously reduce emissions, strengthen sovereign capability and retain globally competitive industrial production. Achieving all three outcomes will require policy settings that both support industry investment, technological innovation and long-term competitiveness and recognise bauxite, alumina and aluminium as an integrated, strategically vital national asset.