

Safeguard Taskforce, Department of Climate Change, Energy Environment and Water (DCCEEW)

<https://consult.dcceew.gov.au/2026-27-safeguard-mechanism-review>

18 September 2026

Dear Minister

Re: 2026-27 Safeguard Mechanism Review

The Australian Aluminium Council (the Council) welcomes the opportunity to make a submission on the 2026-27 Safeguard Mechanism Review Consultation Paper (the Paper). The Council's submission is in three parts:

1. This letter including industry context in the face of global competitiveness challenges;
2. Aluminium energy and climate context; and
3. Responses to selected questions in the Paper of relevance.

The Council's Members have also made their own submissions which should be read alongside this industry position.

The Council's perspective is informed by its representation of Australia's resilient, competitive and sustainable integrated bauxite mining, alumina refining, aluminium smelting and downstream processing industries. This value chain is strategically important to Australia's economic strength, regional communities, industrial capability and transition to a low-carbon future. As global competition for strategically important minerals and manufactured products intensifies, Australia's integrated aluminium industry is increasingly recognised as a national asset by both domestic and international partners.

The 2026/27 Review of the Safeguard Mechanism is an opportunity to examine its operation, but it is important to recognise that it 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, so attempting to use it as such risks policy failure and could make the cost of compliance for Australian industry sufficiently high to risk deindustrialisation. The Council believes that the core design should be maintained as the least-cost and least-complex option and supported by further incentives rather than additional compliance burdens. Industry needs more "carrots" than "sticks" to compete internationally.

The Council recognises that the Review is framed around six core principles which have been ranked in priority order:

1. Protect competitiveness

The Safeguard Mechanism must be viewed through the lens of international competitiveness where Australian industry is competing in a complex and unstable geopolitical environment, and where facilities are at risk of not only carbon, but also 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.

As recognised in the Carbon Leakage Review¹, over the longer term, the emissions intensive trade exposed (EITE) provisions, particularly trade exposed baseline adjusted (TEBA) provisions under Safeguard Mechanism are unlikely to be sufficient to prevent carbon leakage and this will require further consideration and data beyond this year's Review. This calibration must be undertaken against competitor

nations in each sector and is key to ensuring Australian industry is not disadvantaged while recognising the very dynamic global and geopolitical nature of these risks. *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. Focus on post 2030 certainty and prioritise long term settings

Industry is making long term investment decisions to decarbonise, and policy certainty is an important way to reduce the risk associated with this decision making process - frequent policy change increases risk and undermines this investment. Australia's climate policy needs to recognise the challenges of available Scope 1 decarbonisation technologies and the non-linear rate of industrial decline largely due to technology readiness and suitability for retrofit, facility-level challenges and constraints, and challenges related to access of low emissions, firm, internationally competitive electricity. 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 allowing facilities to combine onsite abatement with access to high-integrity carbon units. This flexibility recognises that economically viable onsite abatement opportunities vary significantly between facilities and over time. Facilities facing limited near-term abatement opportunities should continue to have access to credible market mechanisms while technologies mature and enabling infrastructure becomes available. Restricting access to flexibility mechanisms may increase the cost of compliance without necessarily accelerating the deployment of technologies that remain technically or commercially unavailable. Higher compliance costs do not automatically translate into greater emissions reductions where the underlying barriers are technological, infrastructural or economic. Maintaining flexibility is particularly important for industrial value chains where abatement opportunities are uneven across facilities, capital-intensive and dependent on enabling infrastructure outside the facility gate. *Evidence over the last two years is that more flexibility is needed, not less.*

4. Preserve the core design

While recognising that three years have passed since the reforms began and there are now two years of data on scheme performance, the Paper outlines that short-term results suggest the reforms are working as intended. This was consistent with the findings of the Productivity Commission's 2025ⁱⁱ report found that the Safeguard Mechanism provides efficient and effective incentives for emissions reductions and that this incentive will get stronger over time, as baselines decline. *On this basis, the policy position should remain with the status quo.*

5. Maintain a Net Zero Trajectory – keep a proportional share and obligation to reduce net emissions to zero by 2050.

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 by allowing facilities to combine onsite abatement with access to high-integrity carbon units. This flexibility recognises that economically viable onsite abatement opportunities vary significantly between facilities and over time. A slower decline in gross emissions in only the first two years reflects the time needed to adapt and respond to regulatory changes as well as the non-linear abatement pathway. *The target is net, not absolute, zero by 2050, supported by phased milestones.*

6. Prioritise domestic, onsite action

As recognised by the Climate Change Authority in its 2026 Annual Progress Advice Consultation Paper, decarbonisation is rarely linear; it may involve step changes, acceleration, or volatility. Changes in the Mechanism in 2023 were designed to encourage production to occur where it is least emissions intensive while providing flexibility for abatement to occur across Safeguard facilities (and eligible ACCU projects),

rather than requiring every tonne of abatement to occur at the facility with excess emissions. 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. Particularly for activities where decarbonisation technology is being developed, such as inert anodes for aluminium smelting, onsite abatement options are limited in the short to medium term. *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.*

With these guiding principles and implications for industry the focus of the Council’s position are:

A. TEBA and 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 manufacturing. The continuation of transitional support through differentiated decline rate mechanisms, TEBA and other potential flexibility levers within the framework, to allow time for transition to occur is essential to the viability of the industry. 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 proportionate share and no higher baseline decline

Consistent with the principles of *preserving the core design, maintain proportional share and net zero trajectory* - facilities covered by the Safeguard Mechanism should not contribute a higher than proportional share of abatement and a continuation of the current 4.9% decline rate as a default value would maintain progress within Australia’s target range.

C. Onsite abatement versus flexibility

Scope 1 abatement for aluminium and alumina is challenging and non-linear. All units should represent real emissions reductions, make a genuine contribution to the goals of the Paris Agreement, and provide confidence in action by Australian companies to achieve targets. Restricting access to flexibility mechanisms may increase the cost of compliance without necessarily accelerating the deployment of technologies that remain technically or commercially unavailable and the ability to bank SMCs is an important feature to support onsite abatement, particularly where it is non-linear.

Higher compliance costs do not automatically translate into greater emissions reductions where the underlying barriers are technological, infrastructural or economic. In particular, discounting the relative value of ACCUs to increase costs would not be as effective as complementary policy drivers that could incentivise investment rather than penalise facilities for time to implement abatement. Maintaining flexibility is particularly important for industrial value chains where abatement opportunities are uneven across facilities, capital-intensive and dependent on enabling infrastructure outside the facility gate.

Members of the Council are continuing to invest in decarbonisation activities at marginal costs above the forward ACCU price, including at sites which have received a TEBA baseline, where these opportunities exist, as covered by Members in their separate submissions to, and direct engagement with, the Department.

D. Coverage and transition

More than 99% of the vertically integrated aluminium industry’s Scope 1 emissions are covered by the current Safeguard Mechanism, there are a number of small bauxite mines and extrusion presses which are not. A large expansion of scope or rapid decline in threshold may increase regulatory burden without necessarily substantially reducing Australia’s emissions. Consistent with principles of preserving the core design but providing post 2030 policy, any expansion of coverage should be proportionate, predictable and focused on emissions outcomes, so that regulatory effort is directed where it can materially support Australia’s transition objectives.

Conclusion

Australia has the opportunity to shape its future, including its energy transition and industrial transformation, in a manner which is consistent with not only its net zero ambitions, but which maximises the social and economic potential of its resources. 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 support industry investment, technological innovation and long-term competitiveness. Securing that future will require reliable energy, long-term investment and policy settings that recognise bauxite, alumina and aluminium as an integrated, strategically vital national asset. The Council is happy to provide further information on any of the issues raised in this submission.

Kind regards,



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About us

The Australian Aluminium Council is the peak industry association representing Australia's integrated bauxite, alumina and aluminium industry. The Council provides a unified voice across the value chain, working with governments, industry and communities to support a resilient, competitive and sustainable sector that underpins Australia's economic strength, industrial capability and energy transition.

Attachment A - Aluminium Industry Energy & Climate Context

The aluminium industry has been operating in Australia since 1955, and over the decades has been a significant contributor to the nation's economy. The Department of Industry, Science and Resources has recently updated its forecastⁱⁱⁱ to earnings reflecting the geopolitical impacts on the sector, remaining at around \$19B in export revenue annually. More than \$14B of this comes from the alumina and aluminium industries, as value adding mineral processing sectors. The industry includes six bauxite mines which collectively produce over 100 Mt per annum making Australia one of the world's largest producers of bauxite. Australia is the world's largest exporter of alumina with five alumina refineries producing around 17 Mt per annum of alumina. Australia is the seventh largest producer of aluminium, with four aluminium smelters, and additional downstream processing industries, including more than 20 extrusion presses. Aluminium is Australia's top manufacturing export. The industry directly employs more than 21,000 people, including 6,600 full time equivalent contractors. It also indirectly supports a further 55,000 families predominantly in regional Australia. The integrated industry contributes around \$18 B to Australia's GDP.

Taken together, these activities form an integrated national value chain with deep technical expertise, significant regional presence and strategic importance to Australia's economy and industrial capability. This is why policy settings affecting the sector should be assessed not only through a facility-level emissions lens, but also through their implications for regional employment, export earnings, energy system reliability and sovereign industrial capability.

Aluminium is one of the commodities most widely used in the global transition to a clean energy future^{iv}. It is also recognised for its importance to both economic development and low emissions transition. Aluminium use is highly correlated with GDP, so as countries urbanise, per capita use of aluminium increases. Global demand for primary aluminium is expected to continue to grow in the transition to net zero 2050.^v The Council supports the Paris Agreement and acknowledges the scientific evidence of global warming reported over time by the United Nations Intergovernmental Panel on Climate Change (IPCC) and supports the need for a global response to the threat of climate change. The Council supports Australia's commitment to achieve net zero by 2050 and 43% below 2005 levels by 2030. While an increasing proportion will be met through recycled aluminium, there will still be a need for increased production of primary aluminium requiring a comparable increase in global bauxite mining and alumina refining rates. Further background on the sector and its role in Australia's decarbonisation in its 2025 submissions to the Productivity Commission^{vi}.

Australia's aluminium smelters are already a large electricity consumer, with the four smelters using around 2,600 MW or ~12% of the electricity consumed in the NEM. Providing electricity is supplied consistently, with firm power, and at internationally competitive prices, aluminium smelting can be run on renewable electricity. As smelters are already largely electrified, no technological conversion is required to take advantage of the rapid decarbonisation of the Australian grid, with this increased penetration of variable renewables. This role means aluminium smelting should be considered not only as a large electricity load, but as a sophisticated demand-side capability that can support energy security during the transition.

As there is an increased penetration of variable renewable technologies, there will be an expanded role that smelters will be able to offer to support reliability through power services, flexibility and interruptibility.

- Interruptibility is the short term loss of power to part of or whole potline or whole smelter.
- Flexibility is the ability to use more or less power than normal, for short term periods (seconds to minutes through to hours) without creating too much process instability.

Smelters' large and fast-acting interruptibility helps secure and restore stability to the network before and after contingencies occur – which can potentially avoid impacts, or load shedding, to the broader customers and population. The industry has increasingly been called upon to support grid stability and reliability, as the challenges in managing the grid increase over the course of phaseout of aging thermal generators in parallel with growing volumes of variable renewable power supplies.

Attachment B – Response to Consultation Paper

Of the Council's Members all four smelters, alumina facilities and some of the largest bauxite mines are Safeguard facilities. Bauxite, alumina and aluminium are trade exposed and eligible to apply for Trade Exposed Baseline Adjustment [TEBA] status.

3.1 Flexible Compliance

3.1.1 Emissions reduction technologies

- *Are Safeguard policy settings and Government support mechanisms suitable for developing and deploying emissions reduction technologies for the industrial sectors? Are there any remaining barriers to undertaking on-site abatement, including sector-specific barriers?*

The aluminium industry is continuing to invest in abatement. Decarbonisation of the Scope 2 electricity¹ supplied to smelters is the most substantial near term abatement opportunity^{vii}, as smelter contracts come to the end of their current terms, however efforts to repower smelters with renewable electricity nonetheless face significant timing, approvals and commercial challenges. These investments include renewable energy generation, and firming needed to support industrial loads and industry is supporting these investments, without electricity being included in the Safeguard Mechanism.

There are also signs of strong investment in industrial decarbonisation projects targeting process heat emissions, particularly within alumina refining. These include investments in thermal energy storage, electrification, low-emissions fuels, energy storage and process improvements that have the potential to materially reduce Scope 1 emissions over time. While many of these technologies are still progressing through development and demonstration phases and will require access to competitively priced reliable renewable electricity at scale to be deployed, they represent important pathways for long-term industrial decarbonisation. A number of these projects have been progressed in partnership with government, demonstrating the important role of grant funding and other public investment in supporting R&D and first of a kind projects and driving deployment of pre-commercial technology. Members of the Council are continuing to invest in decarbonisation activities at marginal costs above the forward ACCU price, including at sites which have received a TEBA baseline, where these opportunities exist, as covered by Members in their separate submissions to, and direct engagement with, the Department.

The settings and support mechanisms in place are helpful to support industrial decarbonisation, particularly the ability to generate Safeguard Mechanism Credits (SMCs) to help bring forward early investment, government support where technologies are not commercially viable, and flexibility provisions when technology is not yet available or subject to major investment cycles. Certainty around the continuance of these settings is critical for industry to invest to make the major capital investments that are required. Broader understanding of the policy suite to support the decarbonisation, particularly the Safeguard Mechanism, is important to embed the policies and cement confidence in the schemes even with domestic and international changes. This will support the long term investments required.

However, Scope 1 abatement aluminium and alumina are challenging, and non-linear and additional support is required for the development of decarbonisation technology and for the broader roll out due to the associated high costs for this sector, where emissions intensive trade-exposed processing facilities have significantly lower margins than other sectors (Figure 1).

¹ The Council does not support the inclusion of electricity in the Safeguard Mechanism, believing that the Safeguard Mechanism is not the best policy for addressing any concerns about this sector's emissions. The cost pass through from the electricity sector would be inflationary to all consumers and complex to estimate and account for, for EITE facilities.

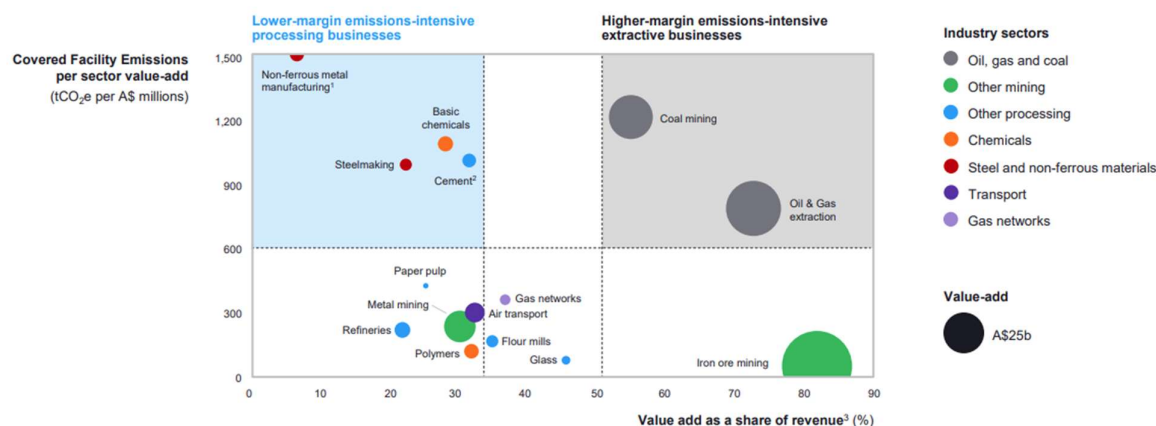


Chart Notes: 1. Emissions intensity of basic non-ferrous metal manufacturing is approximately 3,000 tCO₂e per A\$ million value add but shown lower than this to increase readability. 2. Clinker import exposure not captured in allocation to Cement segment in import export table. Treated as “non-metallic mineral mining”. 3. Value added as a share of revenue is effectively based on cash flow and does not account for depreciation or required rates of return to previous investments.

Figure 1. Sector emissions intensity v sector margins^{viii}

While there is some flexibility in the design of debt instruments to support decarbonisation projects, their fundamental nature means overall costs and risks stay with the proponent, limiting the ability for decarbonisation projects to clear investment hurdles. An alternate compliance mechanism to surrendering certificates could include paying into a fund which could be drawn down on to support onsite abatement could be considered in the future. For example, In Quebec, Canada revenues from the carbon pricing scheme are allocated as funds for decarbonisation projects. The facility’s compliance costs may be given back as allowance to the facility to be strictly used to fund its decarbonisation projectsⁱ. Timeframes for this type of scheme would have to be commensurate with the project development timeframes beyond 2030.

- *Are there any important areas that are not covered by government policy or programs?*

To support industrial decarbonisation, Australia must be sufficiently competitive to be able to attract global decarbonisation investment. Treasury’s Future Made in Australia (FMIA) Front Door recognises that for the net zero transition an estimated \$625 billion of coordinated investment is required to decarbonise Australia’s industry and energy system^{ix}. Policy support needs to be commensurate with the scale of these significant investments but must also be coordinated and streamlined across federal and state level departments and regulators for major transformational investment. For an integrated value chain such as aluminium, this coordination is essential. Investment decisions in mining, refining, smelting, energy supply and enabling infrastructure are interdependent, long-term and highly sensitive to policy, approvals and energy market settings. Brownfield industrial facilities like alumina refineries can be further constrained with respect to the number of initiatives that can be safely pursued within a finite physical footprint without disrupting production.

Renewable energy investment and capacity additions will be critical to achieving Australia’s decarbonisation objectives and Governments also have a critical enabling role in addressing constraints to delivery of renewable energy projects including planning regulation, land access, and construction costs that are putting the industrial transition at risk due to tensions with competitiveness and scheduling. Planning systems, regulations and workforce development must also align with delivering projects required for shared net zero ambitions.

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. Members are experiencing long lead times (>5 years) for transmission upgrades and costs associated with contracting for renewable electricity for the already largely electrified smelters and for decarbonisation projects at operating refineries are challenging.

Renewable energy investment and capacity additions will be critical to achieving Australia's decarbonisation objectives.

Energy Policy Reforms

Australia's aluminium smelting and alumina refining industry is a strategically vital national asset. It supports grid stability and energy security, sustains significant regional employment and economic activity, contributes to export earnings and underpins the industrial capability needed for transport, infrastructure, manufacturing, defence and emerging technologies. As Australia's electricity system transitions toward decarbonisation, new and emerging electricity-intensive sectors—including data centres, hydrogen production, and critical minerals processing—are driving increased competition for renewable and firmed electricity supply. How Australia's electricity market allocates that energy, and the value framework governing those decisions, will shape the nation's industrial base for decades to come.

The Council recently commissioned Rennie Advisory^x to undertake a socio-economic analysis of the value of aluminium smelters (and future electrified alumina refineries) as large industrial users of electricity. The study compares the contribution of the aluminium sector with alternative current and future electricity users, assessing how socio-economic value should be considered in energy allocation and planning decisions that extend across all energy-intensive industries. The report confirms that Australia's integrated aluminium sector plays a critical role in regional communities and for Australia's electricity grid, as the grid's largest and most sophisticated demand-side asset delivering the highest socio-economic return per unit of electricity of any large industrial load. This reinforces the need for energy planning and market design to recognise not only the volume of electricity consumed by large industrial loads, but the broader economic, regional and system value they return.

The report outlines four market and policy failures and reforms which deliver a path to support all energy intensive sectors;

1. Valuing System Level Benefits - Reform market mechanisms to recognise and remunerate the full system value of system level benefits;
2. System Planning - Shift the systems planning paradigm to better value the demand-side and incorporate socio-economic value and place-based delivery into transmission planning;
3. Cost of Capital - Establish a concessional debt facility to bridge strategically significant industry through the energy transition, supporting generators supplying to strategically significant regional industry; and
4. Transmission & Grid Access - Require new large price-insensitive loads to invest in supply and implement tariff structures for strategic, price sensitive loads.

The Government is also encouraged to consider additional levers which could be used, in addition to the Safeguard Mechanism to deliver onsite abatement. It is clear policy support other than loans and small grants, with short duration application periods will be needed to assist abatement projects to investment decision - address underlying barriers and comparable with other jurisdictions This could include financing by other Government entities. For example:

- The use of financing tools, such as longer loan tenors, deferral of interest and principal repayments, security and/or cash flow subordination, and concessional pricing, consistent with the operation of the Northern Australia Infrastructure Facility (NAIF); or
- The use of forgivable loans, which may be linked to external market conditions such as alumina or aluminium commodity prices.

3.1.2 Domestic offsets

The Safeguard Mechanism was intentionally designed to reduce emissions at least cost by allowing facilities to combine onsite abatement with access to high-integrity carbon units. This flexibility recognises that economically viable onsite abatement opportunities vary significantly between facilities and over time. Facilities facing limited near-term abatement opportunities should continue to have access to credible market mechanisms while technologies mature and enabling infrastructure becomes available.

Restricting access to flexibility mechanisms may increase the cost of compliance without necessarily accelerating the deployment of technologies that remain technically or commercially unavailable. Higher compliance costs do not automatically translate into greater emissions reductions where the underlying barriers are technological, infrastructural or economic. Maintaining flexibility is particularly important for industrial value chains where abatement opportunities are uneven across facilities, capital-intensive and dependent on enabling infrastructure outside the facility gate.

As recognised by the Climate Change Authority in its 2026 Annual Progress Advice Consultation Paper^{xi}, decarbonisation is rarely linear; it may involve step changes, acceleration, or volatility. Changes in the Mechanism in 2023 were designed to encourage production to occur where it is least emissions intensive while provides flexibility for abatement to occur across Safeguard facilities (and eligible ACCU projects), rather than requiring every tonne of abatement to occur at the facility with excess emissions. 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 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. It is recognised that the compliance market is now the main source of ACCU demand

The Council believes that all units should represent real emissions reductions, make a genuine contribution to the goals of the Paris Agreement, and provide confidence in action by Australian companies to achieve targets. This includes:

- SMCs are an important investment signal which help facilities manage non-linear declines, including an incentive to cut emissions as quickly as commercially available technology allows and a mechanism for cross sector investment for facilities where options may not exist or be commercially viable, and should be retained beyond 2030.
- The use of ACCUs by Safeguard Mechanism facilities should remain unrestricted so that the scheme continues to encourage least cost abatement across the economy. As addressed in the Paper, the Safeguard Mechanism represents the largest source of demand for ACCUs, helping to reduce emissions in other sectors. Work has been done to ensure ACCUs are high integrity^{xii}, and this includes conservatism in emission reduction calculations with other key changes currently being developed as part of the *Carbon Credits and Other Legislation Amendment (Integrity and Transparency) Bill 2026*. It is important to ensure ACCUs are available at scale to meet the demand of the sectors which need to use them, until abatement is possible. Certainty in both the continuation of the Safeguard and the ability to use ACCUs are required to allow Safeguard facilities to invest in these projects, as there are often long lead times. The Council supports the Department’s ongoing implementation of recommendations to improve the governance, transparency and scale of the ACCU Scheme and to accelerate the development and approval of new methods to increase the supply of high-quality ACCUs, including under the proponent-led method development approach.
- Additionally, the Council supports the Government investigating opportunities to integrate international offsets into Australia’s net zero framework.

The requirement for facilities surrendering ACCUs equal to 30% or more of their baseline to provide a statement to the Clean Energy Regulator on why more onsite abatement has not been undertaken does not add to the effectiveness of the scheme or deliver additional abatement. Once triggered for a facility is likely to be required each year until commercially available technology is able to be deployed.

- *Are new policy measures for ACCU use needed to accelerate industrial decarbonisation?*
- *If policy measures are needed, what would be the best way to reduce reliance on ACCU use without unduly disrupting the carbon market and when should any such measures start?*

The Paper raises the possibility of introducing additional incentives for onsite abatement, including quantitative limits or discounting the use of ACCUs above specified thresholds or qualitative limits. The Council does not support any of these approaches and notes that many ACCU methods already have a conservative approach built into their calculations.

Introducing additional restrictions would be inconsistent with the goal of least cost and least complex. However, as the Papers notes that around three-quarters of current ACCU holdings were issued after 2023 and more than 95% in the last 5 years. Therefore, the Council notes that a rolling five year vintage on ACCUs would not create a substantial compliance burden² on facilities which are largely already using ACCUs created in the last 5 years. Whereas quantitative limits, without other ways to comply could leave sectors needing to close if decarbonisation technology is not commercially available in time eg for aluminium, adding to carbon leakage risks.

Members of the Council are continuing to invest in decarbonisation activities at marginal costs above the forward ACCU price, including at sites which have received a TEBA baseline. Examples of this are provided in Member submissions.

- *Are requirements to submit carbon abatement plans needed to improve transparency and help inform future supply and demand for ACCUs and SMCs? How would any such requirements complement or duplicate corporate climate disclosure requirements?*

Requiring Safeguard facilities to report future compliance strategies would not only be duplicative with corporate climate disclosure requirements but require advance reporting on legislative compliance. The Council does not support this recommendation and believes it would add further regulatory burden to the sector, reduce the resourcing which can be allocated to abatement and be inconsistent with the goal of least complex.

3.1.3 International units

- *Is there any ongoing interest in using international offsets for Safeguard Mechanism compliance in the future and what is the rationale for this?*
- *How would the market need to develop before inclusion in the Safeguard Mechanism could be considered at future review points and what considerations should be given regarding interoperability, recognition and integrity?*

The Australian Government is encouraged to progress Article 6 of the Paris Agreement to enable better regional coordination and improve the efficiency of trade between jurisdictions with different climate policy and carbon pricing by improving consistency.

3.2 Inter-temporal flexibility and the cost containment measure

The use of a range of offsets should be supported by flexibility mechanisms, including banking, borrowing and an expanded multi-year monitoring program (MYMP) which should continue beyond 2030. MYMP could be a valuable tool to help address non-linear decline rates, but it is not flexible enough in its current form because the final emissions have to be below baseline and a too short a time period for most capital projects.

- *Is banking working to encourage businesses to reduce their emissions ahead of schedule? Are there any strong reasons why banking should not extend beyond 2030?*

The Council supports the continued operation of current banking measures beyond 2030. As outlined in the Paper, headroom was effectively removed in the 2023 reforms, meaning that there is little risk of excess SMCs impacting point and period targets.

- *Are current borrowing arrangements working to help businesses manage short-term exceedance? Should borrowing continue beyond 2030?*

The Council supports the continued operation of current borrowing measures beyond 2030.

² The Council would not support the application of any similar arrangements for SMCs where their use should remain unrestricted regardless of vintage.

- *Should the current policy that prevents multi-year monitoring periods from extending beyond 2030 be retained? Are there circumstances that could benefit from access to multi-year monitoring after 2030?*

MYMP should continue beyond 2030 as it could be a valuable tool to help address non-linear decline rates, but it is not flexible enough in its current form because the final emissions have to be below baseline, and it includes too short a time period for most capital projects. Adapting MYMP to realistic abatement timelines would provide flexibility while still providing an incentive for abatement. While point targets represent an indicator of performance that is easily understood, this should not be at the expense of policy that works with capital timeframes.

- *Is the current design of the cost containment measure sufficient to allow businesses to manage upside price risks? Could the current cost containment measure price deter investments in emissions reduction activities?*

The Council believes the current measure should continue and does not deter investments in emissions reduction activities. As outlined in the Paper, the current inventory may need bolstering to avoid future price shocks or the risk of non-compliance. The Council would support the Government investigating options to increase offsets supply.

3.3 Trade exposed and strategic industries

3.3.3 Trade-exposed baseline adjustments

The continuation of transitional support through differentiated decline rate mechanisms, TEBA and other potential flexibility levers within the framework to allow time for this transition to occur is essential to the viability of the industry. This will need to include low or near zero decline rates and reduced baselines for sectors with limited mitigation options and challenged margins to support the viability of these assets through the transition and will be essential to continue to apply beyond 2030. This is why policy support should be designed around real investment pathways, not only annual compliance metrics. The aluminium sector's transition will depend on the commercial availability of technology, access to firmed renewable energy, long-term bauxite supply, and the ability to attract capital in globally competitive markets.

Australian aluminium and alumina industries are investing significant resources to identify, develop and commercialise complex new technologies that will enable fossil fuels to be phased out of operations as soon as commercially possible. The timeline for these reductions depends on time taken to successfully identify, develop and commercialise these processes, and to safely integrate into existing facilities. Challenging market conditions currently facing the industry have led to the impairment of two Australian alumina refineries^{xiii} and two refineries have been partially curtailed or closed^{xiv}.

The Carbon Leakage Review found that while current Safeguard Mechanism settings are largely effective at mitigating carbon leakage risk in the short- to medium-term, they are likely to need to be augmented with additional measures. Reducing domestic emissions by closures, especially where production will be replaced by an international production with a higher emission intensity, does not support the Paris Agreement goals. It is worth noting that the global competitors for each part of the industry vary with commodity^{xv}. Mitigation for carbon leakage could include:

- Calibration against action being undertaken by competitor nations in each sector;
- Government funding to support decarbonisation projects;
- Consideration of multi-year flexibility mechanisms where a reduced or deferred decline rate (low to zero) could be applied for upon demonstration of a longer term decarbonisation plan or investment with longer implementation lead times, reflecting the non-linear rate of industrial decline;
- Acknowledging the additional costs and non-Safeguard abatement by industry, including substantial new investment in renewable energy contracts. This could be counted towards reducing the compliance obligation in recognition of this investment and/or allowing for an equivalent value of these costs to be accessible to companies to be used for continuing investment in decarbonisation projects and renewables; and
- Consider options for companies to access funds for decarbonisation from contributed compliance costs.

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.

- *Do current arrangements that link TEBA eligibility to scheme cost impacts create equity concerns among competing facilities or discourage uptake of on-site abatement?*
- *Would a sectoral approach to TEBA eligibility better target carbon leakage risks and help to address any equity concerns?*

The Council believes some sectors or facilities may require further differentiated decline rates. Differentiation should not be viewed as an exemption from transition. Properly designed, it is a mechanism to maintain investment confidence, manage non-linear abatement and support the continued operation of strategically important assets while technologies and enabling infrastructure mature.

The Council does not support the premise a sectoral decline rate for sectors at risk of leakage would need to be higher than the current minimum decline rate of 1%. The purpose of a differential decline rate should be to protect against the risk of carbon or investment leakage and therefore should be calibrated against action being undertaken by competitor nations in each sector. Low or near zero decline rates and reduced baselines for sectors with limited mitigation options are important policy mechanisms to support the viability of these assets through the transition and will be essential to continue to apply beyond 2030.

The Council's Members have a range of views on whether sectoral approaches should be applied, and individual member submissions should be considered in conjunction with the industry view.

There is no evidence that the current TEBA approach removes the onsite abatement incentive for the Council's Members. There is in fact evidence of specific projects being undertaken across the Council's Members including those which have TEBA arrangements in place. These including fuel switching^{xvi} and co-firing^{xvii}, as well as improvements in perfluorocarbon (PFC) performance at the smelters with improved operational stability. While these continue to highlight the non-linear nature of abatement options available to facilities but the continued ambition to reduce onsite abatement where opportunities are available.

Recent changes proposed by the Government include a Domestic Supply Obligation^{xviii} as part of a suite of policy settings needed to restore Australia's energy competitiveness and abundance. Gas availability at an economic price could incentivise fuel switching from coal, enabling emissions reductions in the next decade, at some facilities and help maintain facility economic viability while low-carbon technologies are developed and deployed.

- *Could a 'catch-up mechanism' be introduced for TEBA to better distribute the effort between TEBA recipients and other Safeguard facilities?*

The Council believes that a catch up mechanism would need to be contingent on availability of technology, commercial and policy support for retrofitting abatement solutions.

- *Feedback is sought on options for improving TEBA that would continue to effectively manage carbon leakage, and deliver Safeguard Mechanism objectives, including emissions targets and incentives for on-site abatement.*

Australia's climate policy needs to recognise the challenges of available Scope 1 decarbonisation technologies and the non-linear rate of industrial decline largely due to facility-level challenges and constraints, but also as mentioned previously, challenges related to access of low emissions, firmed, internationally competitive electricity. Clear signals are needed about how Australia's climate policy and Safeguard Mechanism settings will provide long term investment signals which help facilities manage non-linear declines, including an incentive to cut emissions as quickly as commercially available technology allows. For example, a clear and continued pathway to generate and use SMCs as well as other flexibility mechanisms beyond 2030 such as MYMP, noting that setting need revision to recognise that not all projects can be delivered by an NDC target year.

Climate policy for hard-to-abate, trade-exposed industries is also industrial capability policy - the settings adopted through this Review will influence whether Australia retains and decarbonises a globally significant aluminium value chain, or whether production, jobs and emissions shift offshore. In the absence of a unified global carbon policy, carbon intensive, hard-to-abate sectors in Australia are competitively disadvantaged internationally in cases where Safeguard compliance liabilities exceed comparative carbon penalties in other jurisdictions. All of Australia's bauxite mines, alumina refineries and aluminium smelters are trade exposed. Changing geopolitical risk and increasingly concentrated supply chains increase the risks of vulnerability outside Australia's control, including carbon leakage as other jurisdictions have lower or less transparent carbon policies in place. Australia's resource and industrial base have the potential to expand zero- and low-emissions industrial production, including of alumina and aluminium, with economic benefits to match but this will take time to achieve. For Australia to be successful in this, industry must receive the necessary support through the transition. Australia's climate policies must reflect the changing dynamic impacting industry and adapt accordingly.

3.3.4 A potential Border Carbon Adjustment

The Council notes the recognition in the Carbon Leakage Review that a border carbon adjustment (BCA) is not appropriate for export oriented industries such as bauxite, alumina and aluminium in Australia.

The Council supports the Carbon Leakage Review recommendation for plurilateral engagement to progress Articles 6.2 and 6.4 of the Paris Agreement. Members note the importance of increasing cross-border consistency around carbon pricing, emissions accounting, offsets, allowances and embedded emissions frameworks as long-term policy objectives that promote trade of low emissions products and help to minimise the administrative burden going forward related to managing different schemes.

3.5 Coverage

While more than 99% of the vertically integrated aluminium industry's Scope 1 emissions are covered by the current Safeguard Mechanism, there are a number of small bauxite mines and extrusion presses which are not. The Council is concerned that a large expansion of scope or rapid decline in threshold may increase regulatory burden without necessarily substantially reducing Australia's emissions. Any expansion of coverage should be proportionate, predictable and focused on emissions outcomes, so that regulatory effort is directed where it can materially support Australia's transition objectives.

The Council believes that, should there be consideration of a lower threshold, rather than a substantial and steep decline it would be more efficient to signal its future lowering by around 25kt every five years, for example to 75 kt in 2030, 50kt in 2035 and 25 kt in 2040. This would:

- Provide a strong incentive for non-covered entities to reduce their emissions in advance of this timeline, to avoid a future regulatory burden;
- Approximately align with the reduction being faced by covered facilities of 4.9% per year, ensuring that facilities which are close to the current threshold also have an incentive to reduce their emissions.

These reductions would be achieved with less administration by both industry and the regulator.

Additionally, to reduce the potential "shock" for new entrants, potentially they could opt in early and generate SMCs to incentivise abatement ahead of coverage, like for facilities that drop under the threshold. This may also help change the balance of ACCUs to SMCs for industrial projects, noting that the administration of an ACCU project is more complex than SMC generation.

3.6 Technical and administrative matters

Feedback is sought regarding administrative aspects of the Safeguard Mechanism.

Safeguard facilities face a range of costs which are not directly accounted for under the current TEBA methodology including:

- Capital costs associated with transformational abatement upgrades;
- Costs associated with abatement delivered through scope change (e.g. Scope 2 reductions);
- Carbon cost pass through from bauxite, alumina, lime, gas, coal through the value adding processes.

Therefore, TEBA accounting methodology needs to be updated to reflect experiences of facilities over the last two years including:

- Capital costs associated with transformational abatement upgrades; and
- Carbon cost pass through from bauxite, alumina, lime, gas, coal through the value adding processes.

Additionally, it is worth recognising that the 3 Year process creates timing issues which are not aligned with commodities. There are high costs associated with compliance including audits (and costs of any scheme changes). The Council also requests further guidance be provided on EBIT particularly for Joint Ventures including mechanism to gross up shared costs proportionally (similar to the mechanism for revenue). This guideline should also specify whether the market value of goods should include premiums and on operating costs (eg treatment of impairments, unrealised gains).

4.1 Safeguard share of 2035 target

A proportional approach should be tested against the practical realities of hard-to-abate, trade-exposed industries and the national interest in retaining strategic industrial capability through the transition.

- *Should the proportional share be updated from 28.1% to 29.8% to reflect data in the two years prior to the commencement of the reforms or is there an alternative method that would retain a proportional share?*

The facilities covered by the Safeguard Mechanism should not contribute a higher than proportional share of abatement, as they include some of the hardest to abate emission sources in the economy. Some flexibility should be provided to sub sectors, such as recognising abatement elsewhere (e.g. Scope 2 emissions for smelters), risk of carbon leakage, availability of technologies, deployment time to transition and the non-linear rates of abatement. It may be more appropriate to determine the proportional share for the Safeguard after removing sovereign manufacturing TEBA facilities.

- *What factors should be considered in setting the Safeguard Mechanism target for 2035?*
- *What factors should be taken into account when determining an appropriate baseline decline rate to apply from 2030-31 to 2034-35, noting that it must be calibrated to meet the agreed target?*

The Council notes that continuation of the current 4.9% decline rate as a default value would be within Australia's target range. It is worth noting that this is substantially higher than the indicative annual decline rate in the Safeguard Rules at 3.285% which is still in line with net zero by 2050. Given the Paper indicates that for both gross and net emissions data, from the first two years of the reforms, the Safeguard Mechanism appears to be working as intended there is no reason to alter the policy settings.

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