

Demystifying the Safeguard Mechanism and the ACCU Market

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The Safeguard Mechanism is an Australian reporting regime administered by the Clean Energy Regulator (CER) that covers facilities exceeding 100,000 tonnes CO₂-e of covered emissions per year. Covered emissions are the net emissions assessed against an applicable baseline - distinct from an organisation's total scope 1 - 3 footprint. The mechanism applies to approximately 215 of Australia's largest industrial facilities and requires them to reduce emissions in line with declining baselines. Understanding whether your facility meets the 100,000-tonne threshold is the first step; We can help screen facility applicability and distinguish Safeguard obligations from NGER reporting or sustainability-reporting requirements.

Publication context: This article reflects its publication date. Market prices, program rules, reporting duties and deadlines may have changed. Confirm current official guidance before making a decision.

An update from the NG trading desk: the Safeguard Mechanism and markets

The Australian Government's Safeguard Mechanism is a federal policy aimed at reducing emissions from Australia's largest industrial facilities.

Key messages

The largest 215 facilities in Australia, emitting over 100 ktCO₂-e p.a., fall under the Safeguard Mechanism.

These sites must reduce emissions by 4.9% p.a. or surrender ACCUs or SMCs.

Sites that reduce emissions beyond 4.9% p.a. can register SMCs and trade them.

The Safeguard site represents the largest potential demand for ACCUs, and the quantity of SMCs registered has a direct impact on ACCU prices.

Obligations Under the Safeguard Mechanism

Facilities emitting over 100,000 tCO₂-e (Tonnes of CO₂ equivalent) must operate within specific emissions baselines and to reduce these emissions by 4.9% p.a. in line with 43% reduction (on 2005 levels by 2030) and net zero by 2050.

In 2023-24, total emissions from the 215 safeguard facilities were approximately 136 MtCO₂-e, down from 138.7 MtCO₂-e in 2022-23.

Managing Emissions: SMCs and ACCUs

Facilities that emit below their declining baselines can earn Safeguard Mechanism Credits (SMCs), which can be sold to other entities or banked for future compliance needs. Whilst facilities exceeding their baselines must offset the excess emissions either by surrendering SMCs or Australian Carbon

Credit Units (ACCUs).

Trading SMCs and ACCUs: Supply and Demand

Following the 2024 reporting period

Supply: over 8 million SMC units have been issued to 57 facilities. This was much higher than anticipated.

Demand: the CER estimates that excess emissions from 144 facilities will require 9.2 MtCO₂-e surrendered either from SMCs or ACCUs

The market had expected a much lower number of SMCs to be issued and hence much more of the existing 50M in ACCU holdings to be consumed in the first year of surrender under the revamped Safeguard mechanism.

In early March, Core Markets reported that SMCs commenced trading in the brokered markets, and at a slight discount of \$0.50 to \$1.00 to the ACCU price (\$33.25), presumably this reflects that SMCs can only be used for Safeguard sites.

In preparation for the Safeguard Mechanism we can see that over 50% of the ACCUs in holding accounts are being retained by Safeguard sites.

Impact on ACCU Prices

The introduction and trading of SMCs influences the ACCU market. An increase in SMC availability can lead to a reduced demand for ACCUs, potentially stabilising or lowering their market price. Conversely, if fewer SMCs are issued than anticipated, facilities may turn to ACCUs to meet compliance, thereby driving up prices. In late 2024 the ACCU price rose substantially, likely in anticipating of the increased demand under the Safeguard. However, with the large number of SMCs being issued for sites being under their baseline emissions, the ACCU prices retreated to prices similar to mid 2024.

Distinguishing Between SMCs and ACCUs

While both SMCs and ACCUs serve as instruments to offset emissions, their origins differ. SMCs are exclusive to the Safeguard Mechanism, awarded to facilities that operate below their emissions baselines. In contrast, ACCUs are generated from a broader range of projects, including land-based carbon sequestration and energy efficiency initiatives. Facilities under the Safeguard Mechanism can utilize either SMCs or ACCUs to meet their compliance obligations.

Forecast and Registration of SMCs

The Clean Energy Regulator (CER) had projected the issuance of SMCs based on anticipated emissions performances. However, the actual number of SMCs registered can vary due to factors such as operational changes and emissions reduction initiatives implemented by facilities. Detailed statistics on the forecasted versus actual SMC registrations for the December Quarter 2024 are available in the CER's Quarterly Carbon Market Report .

Cost Containment Mechanism

To prevent excessive compliance costs, the Safeguard Mechanism incorporates a Cost Containment Measure. This mechanism ensures that ACCU prices remain within a manageable range, providing price predictability for facilities. The CER sources ACCUs for this purpose from various channels, including those delivered under Commonwealth carbon abatement contracts. One source for the CCM is that those exiting their ERF contracts (through a mechanism known as the "buyers damages" clause) must still deliver 20% of the contracted volume to government at the auction price from their agreement.

Implications for Facilities and ACCU Market Dynamics

Facilities regulated under the Safeguard Mechanism must proactively manage their emissions to stay within declining baselines. This necessitates investing in emissions reduction technologies or securing sufficient credits (SMCs or ACCUs) for compliance. The interplay between SMC issuance and ACCU demand is crucial; a shortfall in SMCs can heighten ACCU demand, influencing market prices.

In summary, the Safeguard Mechanism plays a critical role in steering Australia's industrial sector towards sustainable practices. Understanding the nuances of SMCs, ACCUs, and their market implications is essential for facilities to navigate compliance effectively and contribute to national emissions reduction goals.

Take "direct action" with Northmore Gordon

Looking for energy efficiency or decarbonisation projects? Need expert guidance on your ACCU and SMC strategy? Whether you're looking to secure forward contracts, explore energy-saving opportunities, or navigate compliance requirements, Northmore Gordon can help.

Consider not only your carbon strategy, but also renewable energy and energy efficiency to maximise the value from environmental attribute certificates.

Disclaimer : The information in this article is general only and has been prepared without considering your business' particular circumstances and needs. You should assess or seek advice from Northmore Gordon Environmental (AFSL 533927) on whether it is appropriate for your business's objectives.

Reporting and compliance context

Confirm the reporting entity and period, current thresholds, regulator guidance, evidence boundary and assurance obligations before applying the dated discussion to a live report.

Related guidance

Carbon advisory

Scope 1, 2 and 3 emissions

Contact us

Read the original article for the source publication and its full context.

What is the Safeguard Mechanism and which facilities does it cover?

The Safeguard Mechanism is an Australian reporting regime administered by the Clean Energy Regulator (CER) that covers facilities exceeding 100,000 tonnes CO₂-e of covered emissions per year. Covered emissions are the net emissions assessed against an applicable baseline—distinct from an organisation's total scope 1–3 footprint. The mechanism applies to approximately 215 of Australia's largest industrial facilities and requires them to reduce emissions in line with declining baselines. Understanding whether your facility meets the 100,000-tonne threshold is the first step; We can help screen facility applicability and distinguish Safeguard obligations from NGER reporting or sustainability-reporting requirements.

How does the Safeguard Mechanism differ from NGER reporting?

The Safeguard Mechanism and NGER (National Greenhouse and Energy Reporting) are separate Australian reporting regimes with different thresholds and purposes. The Safeguard Mechanism covers facilities exceeding 100,000 tonnes CO₂-e of covered emissions per year and assesses those emissions against a declining baseline. NGER has facility thresholds of 25,000 tonnes CO₂-e of scope 1 and 2 emissions, or 100 TJ of energy, and separate corporate-group thresholds of 50,000 tonnes or 200 TJ. A facility's energy report, Safeguard position and sustainability report should not be collapsed into one checklist. Our knowledge library emphasises keeping these tests separate to ensure accurate

compliance assessment.

What are Safeguard Mechanism Credits (SMCs) and how do they differ from ACCUs?

Safeguard Mechanism Credits (SMCs) are credits issued exclusively to Safeguard-covered facilities that emit below their declining baselines. They can be sold, banked, or used for compliance. ACCUs (Australian Carbon Credit Units) are issued from a broader range of projects—including land-based carbon sequestration and energy efficiency initiatives—under the separate ACCU Scheme. Both SMCs and ACCUs can satisfy Safeguard compliance obligations when a facility exceeds its baseline. The distinction matters for compliance planning and procurement strategy; over 50% of ACCUs in holding accounts are reportedly being retained by Safeguard sites in preparation for compliance demand. We provide environmental-certificate services to assess eligibility and support certificate management.

What happens if a Safeguard-covered facility exceeds its emissions baseline?

Facilities exceeding their Safeguard baselines must surrender either Safeguard Mechanism Credits (SMCs) or Australian Carbon Credit Units (ACCUs) to meet compliance obligations. The quantity required depends on the shortfall between actual covered emissions and the baseline. Following the 2024 reporting period, the CER estimated that 144 facilities would need to surrender approximately 9.2 MtCO₂-e. This creates a material compliance cost and timing risk that should be factored into energy-management and decarbonisation planning. We can assess your current Safeguard exposure, identify energy-saving opportunities that reduce covered emissions, and support the procurement and retirement of certificates.

How does the Cost Containment Measure protect against excessive ACCU prices?

The Cost Containment Measure is a mechanism designed to manage compliance costs by ensuring ACCU prices remain within a predictable range for Safeguard facilities. The CER sources ACCUs from various channels—including Commonwealth carbon abatement contracts and facilities exiting their Emissions Reduction Fund (ERF) contracts—to support price stability. When SMCs are issued in unexpectedly high volumes, ACCU demand may ease and prices stabilise; when SMCs fall short, ACCU prices may rise. Understanding the interplay between SMC and ACCU supply is critical for facilities planning long-term compliance strategy. Our carbon advisory and certificate services can help model compliance scenarios and procurement timing.

How can Northmore Gordon assist with Safeguard Mechanism compliance planning?

We provide several support pathways relevant to Safeguard compliance. Energy auditing and optimisation services identify opportunities to reduce facility energy consumption and covered emissions below baselines. Carbon advisory services include emissions inventories, opportunity assessment, and transition planning—helping clarify your current Safeguard exposure and prioritised reduction options. Environmental-certificate services support the assessment and procurement of SMCs and ACCUs for compliance. For larger strategic questions, our NSW Climate Change Mitigation and Adaptation Plan support and energy-management system services can integrate Safeguard obligations with broader sustainability and operational goals. Start with an energy-use investigation or emissions inventory if your baseline position is unclear.

Why is distinguishing covered emissions from total scope 1–3 footprint important for Safeguard facilities?

The Safeguard Mechanism assesses only covered emissions—net emissions against an applicable baseline—not an organisation's complete scope 1, 2 and 3 footprint. This distinction means a facility's Safeguard compliance obligation, sustainability reporting requirement, and ACCU reduction opportunity may involve different emission boundaries and baselines. Confusing these can lead to misaligned reporting, inaccurate compliance assessments, and missed opportunities. For example, scope 3 emissions are not assessed under Safeguard but are central to sustainability reporting. Our

carbon-accounting guidance emphasises starting with a clear boundary statement and keeping separate outputs aligned to their intended framework.

What practical steps should a facility take if it expects to fall under Safeguard Mechanism coverage?

First, establish whether your facility meets the 100,000-tonne CO₂-e threshold by assembling energy consumption data, emissions factors and baseline records. Second, understand the difference between your Safeguard covered-emissions baseline and any NGER or sustainability-reporting boundary. Third, identify material energy-saving opportunities and their likely timing and cost. Fourth, establish a governance structure assigning responsibility for energy data, emissions reporting and certificate procurement. We can support each step through energy audits, emissions inventories, opportunity assessment and emissions-management system development. Preparing the evidence file early reduces compliance risk and creates optionality for certificate procurement timing.