

HESTA

consultation submission

2026-27 Review of the
Safeguard Mechanism

September 2026



**Super
with
impact**

About HESTA

HESTA is a profit-to-member industry super fund investing more than \$105 billion¹ on behalf of more than one million members. Our purpose is to invest in and for people who make the world better. We bring that purpose to life through Super with Impact™, which is the positive outcome we create by supporting our members to face the future with confidence, being a gutsy advocate for a fair and healthy community and delivering investment excellence with impact.

As a large, diversified asset owner, long-term climate-related risk exists for HESTA members, regardless of portfolio assets, as the risk is systemic. We consider members' best financial interests are served through a timely, equitable and orderly transition to net zero emissions by 2050 in order to minimise the systemic risks of climate change. This requires a Paris-aligned transition of the Australian economy. To manage climate risk and support the transition, HESTA has set climate targets, including an interim target to achieve 50% reduction in normalised measured emissions² below the 2020 baseline, by 2030.

The Safeguard Mechanism plays a central role in supporting decarbonisation of the Australian economy and investor portfolios by setting the pace at which Australia's emitters decarbonise, facilitating their contribution toward Australia's 2035 Nationally Determined Contribution (NDC) target of a 62-70 per cent reduction in emissions below 2005 levels and Australia's longer-term goal of net zero emissions by 2050. Strong and stable policy provides companies and investors with the clarity and confidence needed to translate targets into implementation.

¹ As at 9 September 2026.

² Normalised emissions refer to the scope 1 and 2 carbon-equivalent emissions intensity of our portfolio per \$AUD million invested.

Executive Summary

The Safeguard Mechanism is an important government policy tool requiring Australia's largest emitters to reduce their emissions year on year. It's a key driver of progress toward Australia's medium and long-term emission reduction targets.

HESTA supports the Investor Group on Climate Change's (IGCC) recommendation to set the Safeguard Mechanism's average baseline decline rate at 7 per cent from 2031 to 2035. IGCC commissioned EY modelling shows this higher rate would have a small incremental cost for industry but would deliver up to 15 megatonnes of average annual abatement from 2031 to 2040, more than double the 7 megatonnes a year modelled at 5 per cent³.

HESTA supports differentiated sector decline rates, underpinned by research showing that extractive facilities generally sit on a lower marginal abatement cost curve than processing and manufacturing, given cheaper, more mature abatement technology. Weighting decline rates would help direct effort to where abatement is available in practice and can be delivered most cost-effectively, without softening the scheme's overall ambition.

ACCUs should ideally be reserved for facilities operating in genuinely hard to abate sectors, with the broader Safeguard Mechanism working effectively to deliver reductions elsewhere at least cost. Government should consider an abatement hierarchy, favouring emissions reduction where feasible before offsetting. This approach could strengthen the Safeguard Mechanism's overall operation and credibility.

Broadening the scope of the Safeguard Mechanism by progressively lowering the facility emissions threshold, with adequate advance notice, is appropriate and supported by modelling. HESTA supports reducing the threshold to 75,000 tonnes of CO₂-e from 2031, mitigating the risk that mid-sized facilities fall below the current threshold and out of scope, and

³ EY modelling, IGCC, *Futureproofing Industry* (2026). <https://igcc.org.au/safeguard-mechanism-reforms-how-to-futureproof-industry/>

providing a cost-efficient means of extending scheme reach without disrupting the price signal for facilities already covered.

HESTA's recommendations:

1. Government should set the Safeguard Mechanism's average baseline decline rate at 7% from 2031 to 2035, aligned to the upper end of Australia's 2035 NDC target of 70 per cent.
2. Government should consider differentiated decline rates within the Safeguard Mechanism, reflecting sector level differences in marginal abatement cost.
3. Government should consider an abatement hierarchy, aligned to the policy intent of the Safeguard Mechanism, guiding the use of ACCUs for facilities and investors.
4. Government should implement a staged timetable for progressively lowering the Safeguard Mechanism's facility emissions threshold, starting at 75,000 tonnes of CO₂-e from 2031.

1. Government should set the Safeguard Mechanism's average baseline decline rate at 7% from 2031 to 2035, aligned to the upper end of Australia's 2035 NDC target of 70 per cent.

HESTA supports IGCC's commissioned research and its recommendation to align the Safeguard Mechanism's annual decline rate with the upper end of Australia's 2035 NDC target of 70 per cent. Achieving Australia's NDC target range requires an annual decline rate of between 5 and 7 per cent from 2031 to 2035⁴, well above the 3.3 per cent currently proposed for that period. Without adjusting the indicative rate, IGCC's modelling shows this would lead to an abatement shortage of 10 megatonnes compared with that required to meet the 2035 target.⁵

EY modelling affirms the benefits of moving to a 7% decline rate, driving onsite abatement and mobilising capital toward the areas where it can be delivered most cost effectively, with minimal increase in cost to industry. A 5 per cent decline rate implies a carbon price signal of around \$50 to \$55

^{4,5} EY modelling, IGCC, *Futureproofing Industry* (2026). <https://igcc.org.au/safeguard-mechanism-reforms-how-to-futureproof-industry/>

a tonne to 2045, while a 7 per cent rate lifts that to around \$100 a tonne and drives up to 15 megatonnes of additional average annual abatement from 2031 to 2040, more than double the 7 megatonnes a year modelled at 5 per cent.

HESTA recommends the annual decline rate for the Safeguard Mechanism be set at 7 per cent from 2031 to 2035.

2. Government should consider differentiated decline rates within the Safeguard Mechanism

A single, Safeguard Mechanism annual decline rate would not reflect that abatement opportunities are unevenly distributed across facilities and sectors. IGCC's research found fossil fuel extraction has around 29 per cent of its abatement task available onsite below \$120 a tonne, roughly 2.5 times that available to manufacturing.⁶ This distinction illustrates how differentiated decline rates could complement and strengthen the Safeguard Mechanism's ability to deliver on its overall emissions targets, directing abatement to where it is available in practice and cost effective, and supporting the better and more targeted use of ACCUs.

Government should build a deeper, sector-by-sector understanding of the metrics needed to calibrate these differentials. This was a key finding of EY's modelling, which showed abatement costs and opportunities vary significantly by sector, reflecting differences in margins and emissions intensity across the economy⁷. Making this information available would give investors and other stakeholders a clear understanding of timelines and sector and facility capacity to contribute.

^{6,7} EY modelling, IGCC, *Futureproofing Industry* (2026). <https://igcc.org.au/safeguard-mechanism-reforms-how-to-futureproof-industry/>

3. Government should consider an abatement hierarchy, aligned to the policy intent of the Safeguard Mechanism, guiding the use of ACCUs for facilities and investors.

ACCUs play a complementary role in the Safeguard Mechanism, offering flexibility to facilities in how they meet their compliance obligation. There is an opportunity to refine ACCU use to improve the overall effectiveness of the Safeguard Mechanism, supporting genuine emissions reduction.

Recognising there are differentiated abatement cost curves across sectors, government should consider adopting an abatement hierarchy to guide the use of ACCUs that underpins the Safeguard Mechanism's underlying intent by favouring emissions reduction where feasible before offsetting. Priority should also be given to hard to abate sectors, where there is a genuine need for ACCUs, relative to other sectors or facilities where onsite abatement is more readily available.

4. Government should implement a staged timetable for progressively lowering the Safeguard Mechanism's facility emissions threshold, starting at 75,000 tonnes of CO₂-e from 2031

HESTA believes it appropriate for government to broaden the scope of the Safeguard Mechanism over time and supports IGCC's recommendation of a staged reduction to the facility threshold, between 75,000 tonnes in 2031 to 25,000 tonnes by 2037. EY modelling shows this would deliver around 5 megatonnes a year of additional abatement across the economy by 2040, achieving that additional coverage without materially disrupting the price signal facilities already in the scheme rely on, making it a low-cost lever for government relative to the abatement it unlocks⁸.

Lowering the threshold over time also reflects an important design principle. As facilities over time improve their emissions intensity and lower overall emissions, coverage under the Safeguard Mechanism needs to be maintained, so it continues to capture the facilities it was designed to regulate.

⁸ EY modelling, IGCC, *Futureproofing Industry* (2026). <https://igcc.org.au/safeguard-mechanism-reforms-how-to-futureproof-industry/>

HESTA recommends the government implement a staged timetable for lowering the threshold, so mid-sized industry has the certainty to plan its own decarbonisation.



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