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FOR PUBLICATION

Ms. Jo Evans PSM

Deputy Secretary

Department of Climate Change, Energy, the Environment and Water

John Gorton Building, King Edward Terrace

Parkes, ACT, 2600

By email:

[Safeguard.Mechanism@industry.gov.au](mailto:Safeguard.Mechanism@industry.gov.au)

Dear Deputy Secretary

**RE: SAFEGUARD MECHANISM REFORM: CONSULTATION PAPER**

Woodside Energy Group Ltd ('Woodside') welcomes the opportunity to comment on the Department of Climate Change, Energy, the Environment and Water's (DCCEEW) Safeguard Mechanism Reform Consultation Paper ('the Paper').

A fair, robust and transparent Safeguard Mechanism ('Mechanism') can support a reduction in Australian emissions, as well as encourage businesses and industries to further innovate and adopt smarter practices and technologies in line with our collective emissions reduction targets.

The key recommendations of our submission, detailed in the Attachment, are that:

- Industry average intensities should be applied to reset baselines and should decline on a predictable trajectory to zero in 2050 (headroom should be removed).
- This will create uneven impacts across facilities, which will have different starting points as well as different costs, availability and timing of their opportunities to decarbonise.
- Effective crediting and international offsetting are therefore an essential mechanism to moderate impacts across the economy while achieving the objectives of the Mechanism. Further work is recommended to ensure this approach is working effectively.
- Measures to provide for the competitiveness of emissions-intensive, trade-exposed (EITE) industries is also an integral component of the approach. We prefer that such measures are in the form of appropriate economic support for achieving decarbonisation, rather than lower decarbonisation requirements.

The above recommendations are intended to work as a complete package and should not be viewed as individual and distinct recommendations.

Our view is that the Mechanism could work best if it is simple, as overcomplication of the Mechanism may impact the intended benefits.

## About Woodside

Woodside is Australia's leading natural gas producer and the largest energy company listed on the Australian Securities Exchange. We are aiming to build a low cost, lower-carbon, profitable, resilient and diversified portfolio towards our aspiration of net-zero by 2050 or sooner<sup>1</sup>.

To achieve this, we are reducing our net equity Scope 1 and 2 greenhouse gas emissions and targeting investment of US\$5 billion by 2030 in new energy products and lower-carbon services that our customers need as they reduce their emissions<sup>2</sup>.

We currently hold equity in six operated and non-operated Australian oil and gas facilities which are regulated under the Mechanism<sup>3</sup>. In 2021, our net equity Scope 1 and 2 emissions were 3,235kt CO<sub>2</sub>-e<sup>4,5</sup> and we are working towards near- and medium-term targets to reduce these emissions by 15% in 2025 and 30% in 2030 on a net basis below the 2016-20 gross annual average. Woodside's 2021 progress towards these targets was recently verified as part of the Clean Energy Regulator's Corporate Emissions Reduction Transparency (CERT) report<sup>6</sup>, for which we were the only upstream energy company to voluntarily participate in the pilot phase.

Recognising the importance of our role to lead and deliver sustainable outcomes in the areas where we operate, we acknowledge the Government's proposal is aiming to:

- Gradually reduce baselines to help Australia reach net-zero emissions by 2050.
- Introduce credits for facilities that emit less than their baseline.
- Provide tailored treatment to EITE facilities so businesses (and the Australian economy) are not disadvantaged compared to international competitors and emissions do not increase overseas.

Importantly, we recognise that the Mechanism is not the only means by which Australia will reach its emissions reduction targets, and other policy initiatives will be needed to address areas such as electricity generation, agriculture, transport and land use. Some elements of the Mechanism package, such as the treatment of new entrants, may not be capable of being finalised independently of these other initiatives.

We would welcome the opportunity to meet with DCCEE in the future to discuss this feedback in detail.

Yours faithfully



**Tony Cudmore**

Senior Vice President – Strategy and Climate

<sup>1</sup> Target is for net equity Scope 1 and 2 greenhouse gas emissions, relative to a starting base of the gross annual average equity Scope 1 and 2 greenhouse gas emissions over 2016-2020 and may be adjusted (up or down) for potential equity changes in producing or sanctioned assets with an FID prior to 2021. The starting base will be adjusted for the combined Woodside and BHP petroleum portfolio.

<sup>2</sup> Individual investment decisions are subject to Woodside's investment hurdles. Not guidance. Potentially includes both organic and inorganic investment.

<sup>3</sup> Per [Safeguard facility reported emissions 2020-21 \(cleanenergyregulator.gov.au\)](https://www.cleanenergyregulator.gov.au) list: APU01- Pyrenees AOA Facility, Gippsland Basin Facility, North West Shelf Project, Pluto LNG, Vincent Project Venture, Wheatstone Operations.

<sup>4</sup> [Woodside Petroleum Ltd. | CERT report 2022 \(cleanenergyregulator.gov.au\)](https://www.cleanenergyregulator.gov.au).

<sup>5</sup> Excludes APU01- Pyrenees AOA Facility and Gippsland Basin Facility as the period was prior to Woodside Energy Group Ltd and BHP Group Limited completing the merger of Woodside with BHP's oil and gas portfolio on 1 June 2022 ([Woodside completes merger with BHP Petroleum](https://www.woodside.com.au)).

<sup>6</sup> [Company index | CERT report 2022 \(cleanenergyregulator.gov.au\)](https://www.cleanenergyregulator.gov.au).

**Attachment: Responses to relevant questions from the Paper**

Consultation questions	Woodside response
<p>What should the Safeguard Mechanism’s share of Australia’s climate targets be?</p>	<p>As a supporter of a whole-of-economy approach to decarbonisation, and lowest-cost abatement, Woodside notes the challenges with attempting to determine what proportion of the Mechanism should apply to national targets in the absence of understanding the full design architecture. For example, to the extent that the proposed crediting and offsetting provisions fall short of such an economy wide price, they will be less effective at performing the intended outcome. Consequently, Government should consider the overall contribution of the Mechanism, and individual sectors within the Mechanism, for tailored baselines based on judging abatement opportunity costs.</p> <p>To address this, Woodside recommends that Government complete a sectoral analysis of abatement potential and costs, including whether proposed crediting and offsetting provisions can be sufficient to address the fair and efficient distribution of the economic task of abatement across the economy and within the Mechanism covered sectors.</p>
<p>Should we retain, and build on, the existing production-adjusted (intensity) baseline setting framework or return to a fixed (absolute) approach?</p>	<p>Woodside supports retaining and building upon the existing production-adjusting framework to help meet the dual goals of reducing emissions and growing the economy.</p>
<p>Views are sought on the proposal to reset baselines in a way that removes aggregate headroom so crediting and trading can commence when baselines start to decline. Options for setting baselines are considered in the next section.</p>	<p>Woodside supports the development of a robust crediting and trading scheme (as a mechanism for lowest cost abatement) and the removal of headroom to ensure market scarcity and that aggregate emissions reductions occur alongside facility-to-facility trading.</p>
<p>What is the preferred approach for setting baselines for existing facilities? Approaches may include:</p> <ul style="list-style-type: none"> <li>• Option 1, which would see all baselines set using industry-average benchmark values.</li> <li>• Option 2, which would see all baselines set using facility-specific emissions-intensity values.</li> <li>• Other proposals, noting there are many possible approaches.</li> </ul>	<p>Woodside’s preference is for Option 1, industry-averages to be used, in parallel to the expansion of crediting and offsetting, as we believe it will incentivise and reward facilities with the lowest intensity.</p>

What are the advantages of best practice, industry average benchmarks, or alternative approaches for baselines for new entrants, noting that a final decision will be informed by baseline setting arrangements for existing facilities?

Woodside advocates for the simple and equitable approach of using industry averages, which will decline over time, for both existing and new facilities to avoid an imbalance between 'greenfield' and 'brownfield' developments. The annual decline in the applicable intensities, as well as crediting below baseline provisions, will provide incentives for efficient design and performance from new entrants.

The number of new facilities and their associated emissions is currently uncertain, as is the future growth or decline in Mechanism sector production. Adjustment of policy settings, such as decline rates, in Phase 2 of the scheme is a more appropriate concept to ensure 2030 targets are met rather than penalising new entrants from Phase 1.

Are there any other issues to consider with the proposal to allow the Clean Energy Regulator to automatically issue tradable credits to Safeguard facilities whose emissions are below their baseline, with crediting and trading commencing on 1 July 2023 subject to baseline setting arrangements that remove aggregate headroom?

Woodside supports the position outlined in Box 4.1 'Nature of crediting' on page 16 of the Paper.

In line with maintaining a simple, low administration approach, Safeguard Mechanism Credits (SMCs) should only be tradeable between Mechanism facility operators, and not treated as financial products under the Australian Financial Services Licences.

This will also assist in focussing carbon financing on the Australian Carbon Credit Unit (ACCU) market.

SMCs should also be genuinely fungible units, and not tagged with source identifiers other than date. Tagging of units will create stratified trading values, which has the potential to lead to increased requirements for buyer side due diligence. Limiting banking of units to three years will reduce risks around future acceptance of credits from any sectors' abatement.

Woodside has set near- and medium-term targets to reduce net equity Scope 1 and 2 greenhouse gas emissions and notes that SMCs as proposed would not contribute towards these net emissions targets limiting our ability to effectively use SMCs to manage compliance costs as intended.

<p>Should banking and borrowing arrangements be implemented for Safeguard Mechanism Credits?</p>	<p>Woodside supports limited term banking of SMCs, with the introduction of Phases (as set out on page 17 of the Paper) to address the potential for residual headroom in the short term.</p> <p>Woodside supports borrowing, with both a volume limit, and a temporal limit.</p>
<p>Should Safeguard facilities no longer be able to generate ACCUs for reducing direct (scope 1) emissions unless they have an existing registered ERF project? Further, should no new ERF projects be able to be registered at Safeguard facilities? Additional feedback is sought on:</p> <ul style="list-style-type: none"> <li>• <b>allowing existing ERF projects at Safeguard facilities to continue to generate credits and retaining double counting provisions to prevent a facility from generating ACCUs and SMCs</b></li> </ul>	<p>Woodside supports retaining and allowing existing ERF projects at Mechanism facilities to continue to generate credits on the basis that intervention in the current ERF scheme should only be undertaken if absolutely necessary, to avoid damaging confidence in the scheme and those who have already invested in it.</p>
<p>Should Safeguard facilities no longer be able to generate ACCUs for reducing direct (scope 1) emissions unless they have an existing registered ERF project? Further, should no new ERF projects be able to be registered at Safeguard facilities? Additional feedback is sought on:</p> <ul style="list-style-type: none"> <li>• <b>options for the treatment of deemed surrender</b></li> </ul>	<p>The deemed surrender mechanism should continue to be available to existing projects on the basis that intervention in matters impacting the current ERF scheme should only be undertaken, if necessary, to avoid damaging confidence in the scheme. If no new facility-based projects are registered, the case for continuing to offer the deemed surrender mechanism is decreased.</p>
<p>Should Safeguard facilities no longer be able to generate ACCUs for reducing direct (scope 1) emissions unless they have an existing registered ERF project? Further, should no new ERF projects be able to be registered at Safeguard facilities? Additional feedback is sought on:</p> <ul style="list-style-type: none"> <li>• <b>continuing to allow Safeguard facilities to participate in ERF projects that reduce emissions from electricity use (scope 2) emissions</b></li> </ul>	<p>Woodside supports incentives to reduce emissions associated with electricity generation and use by Mechanism facilities.</p> <p>As noted in our response to questions on government-defined production variables (please see the second last question in this submission on pages 9-10 for further detail), the current definition of electricity and reservoir carbon dioxide as production variables do not allow facilities to reduce emissions relative to baseline, reduce compliance costs and/or generate SMCs.</p>
<p>Should Safeguard facilities no longer be able to generate ACCUs for reducing direct (scope 1) emissions unless they have an existing registered ERF project? Further, should no new ERF projects be able to be registered at Safeguard facilities? Additional feedback is sought on:</p>	<p>Woodside supports the public disclosure of unit retirements (including the beneficial owner and offset allocation) to promote transparency and demand side integrity. Voluntary Carbon Market (VCM) registers are an example of how this could be applied to the ACCU market. For example,</p>

<ul style="list-style-type: none"> <li>mechanisms to promote the transparency of the ACCU market, such as publishing unit holdings, to assist with market decision making, supply and cost effectiveness</li> </ul>	<p>this would include the total volume of units issued and retired (and the buffer pool volume) as well as issuance and retirements per project.</p> <p>For further information see: Gold Standard Impact Registry and the Verra Registry. <a href="https://goldstandard.org">GSF Registry (goldstandard.org)</a> / <a href="#">Verra Search Page</a></p> <p>Woodside would not support the publishing of individual account unit holdings as it is not in line with VCM best practice and would not be beneficial to carbon market operations. The VCM does not publish the individual account holding details. Publication of individual account holding details will not reflect full beneficial interests and forward offtake arrangements and may negatively impact competition.</p>
<p>Should Safeguard facilities no longer be able to generate ACCUs for reducing direct (scope 1) emissions unless they have an existing registered ERF project? Further, should no new ERF projects be able to be registered at Safeguard facilities? Additional feedback is sought on:</p> <ul style="list-style-type: none"> <li>should international units be able to be used for compliance under the Safeguard Mechanism at a future time, noting that any decision would depend on the rules for international trading?</li> </ul>	<p>Woodside supports an urgent transition to the use of international units for SGM compliance, subject to appropriate integrity. Inclusion of international units will increase market liquidity and therefore moderate the cost of emissions reduction to industry and thus the Australian economy.</p> <p>We believe providing clear and early signals to the market, including a transition date, will allow for a measured and transparent transition.</p> <p>Many international units, including from the VCM, have comparable integrity standards to the ERF. In particular, VCM project registers have higher transparency standards – permitting independent third-party scrutiny of unit integrity and increasing market confidence. Public VCM project documentation includes:</p> <ul style="list-style-type: none"> <li>project additionality demonstration,</li> <li>baseline determination,</li> <li>permanence risk assessment,</li> <li>stakeholder engagement,</li> <li>environmental impact assessment, and</li> <li>independent third-party verification and validation reports</li> </ul> <p>The disclosure of such information would consider, for example, the Integrity Council for Voluntary Carbon Markets (IC-VCM) Core Carbon Principles for Program Governance and Mitigation Activity Information</p>

	<p>requirements. Additionally, SMC unit documentation would not exceed what is required under National Greenhouse and Energy Reporting.</p> <p>Woodside supports the position that any international offset used for compliance under the Mechanism should have a corresponding adjustment applied to national accounts. This will ensure the integrity of the use of international unit, reduce the risk of double counting and protect the reputation of the Mechanism.</p> <p>Additionally, the Australian Government urgently needs to invest in corresponding adjustment infrastructure, within its national inventories, to support current voluntary offsetting action by Australian companies. This has the potential benefit of increasing Australia's international reputation with export customers by demonstrating we are capable of delivering lower carbon products – something which is important for EITE industries.</p> <p>Customers, investors and stakeholders are increasingly expecting voluntary offsetting action to have corresponding adjustments. Japanese and Korean compliance markets provide potential models for the incorporation of international units into national compliance schemes.</p> <p>Customers are taking an interest in the full product lifecycle of emissions including upstream production emissions occurring outside of the customer country. Australian exporters should be given the opportunity to meet their compliance obligations with offset units that meet their customers' preferences as well Australia's climate ambitions, in order to deliver competitive offset-products and / or carbon neutral products.</p> <p>For further feedback on the continued viability of new ERF projects at Mechanism facilities, please see our response to the question on the suitability of current Government-defined production variables.</p>
<p>Should a facility-specific comparative impact assessment that builds on existing EITEs definitions be used rather than a sector wide designation?</p>	<p>Woodside supports retention of the established methodology for defining EITEs, including industry level emissions-intensity and encourages consideration of global competitor carbon costs as contemplated on page 21 of the Paper.</p>

<p>Would additional funding opportunities effectively assist EITE facilities to adapt to declining Safeguard baselines?</p> <p>What kinds of funding, finance or other arrangements and measures would best support EITE Safeguard facilities to reduce their emissions? In particular, what potential design features of the Powering the Regions Fund would support covered facilities with their decarbonisation priorities?</p>	<p>Yes. Woodside prefers that protection from the international competitive effects of the scheme should be in the form of economic support for the cost of reducing emissions, instead of a waiver from reducing emissions through provision of SMCs or differential tax treatment. This is aligned with the twin purposes of achieving emissions reductions whilst maintaining national competitiveness.</p> <p>This could take the form of direct funding from the <i>Powering the Regions Fund</i> based on delivered emissions reductions from the deployment of low-emissions technology or other form of direct fiscal support, noting that the purpose of low-emissions technology funding is more limited than the purpose of EITE protection. For example, a facility might incur costs that reduce its competitiveness by making changes to operating practices at facilities, which may not constitute a technology change.</p>
<p>Is the direct provision of SMCs an appropriate way to mitigate cost impacts for EITE facilities?</p>	<p>Woodside does not prefer the direct provision of SMCs. While it reduces compliance costs it does not incentivise emissions reduction and as such is counter to the objectives of the Mechanism.</p>
<p>Are differential decline rates an appropriate way to reduce the impact on EITE facilities?</p>	<p>Woodside does not prefer differential decline rates. While it reduces compliance costs for these facilities it requires greater reduction by non-EITE facilities to maintain Australia's 2030 emissions reduction targets.</p>
<p>Should multi-year monitoring periods be extended to allow facilities with limited near-term abatement opportunities to manage their own abatement path?</p>	<p>Woodside supports the continuation of multi-year monitoring periods to manage production variation year-on-year to ensure a long-term perspective is considered, including expansion of these periods noting the need to not extend beyond 2030.</p>
<p>What are the appropriate characteristics for the decline trajectory to 2030 that can deliver the Safeguard Mechanism's share of Australia's climate targets, and the process for setting baselines post-2030?</p>	<p>Woodside supports a predictable reduction from current industry averages to net-zero emissions in 2050 on the basis a full range of decarbonisation initiatives are implemented in parallel. This is important as it is the full range of decarbonisation initiatives, such as an effective crediting and offsetting system, that recognises that different facilities and industries will decarbonise at different rates and have different cost profiles and starting points.</p>



What transitional or other arrangements should be in place for site-specific production variables, including:

- whether the use of Government-defined production variables (prescribed in Schedule 2 of the Safeguard Mechanism Rule) should be mandatory from the start of Phase 1;
- whether transitional arrangements for facilities using bespoke, site-specific production variables should be considered for phase 1; and
- the proposal that only Schedule 2 production variables could generate Safeguard Mechanism Credits (SMCs)?

Woodside supports moving all facilities to government defined production adjusted variables and industry average emissions intensities at the start of Phase 1 of the reforms.

Are existing Government-defined production variables suitable for the Safeguard Mechanism to drive least cost emissions reductions?

The current production variables disincentivise opportunities to drive emissions reductions through import of renewable or lower-carbon electricity from a separate facility, as well as Carbon Capture and Storage (CCS) of reservoir carbon dioxide emissions. This disincentive occurs because these opportunities reduce emissions as well as the facility's baseline due to a reduction in either electricity or reservoir carbon dioxide production at the facility.

Reducing site based electrical emissions and CCS could provide significant opportunities for decarbonising EITE industrial facilities and should continue to be incentivised in order to promote all opportunities for decarbonisation.

An example of a potential opportunity to reduce site-based electrical emissions at an LNG site would be to implement changes to existing plant and equipment to cease use of internal gas turbines for electricity generation (to run the plant) and import renewable power under a long-term power agreement or construction of a separate renewable power facility.

In this example, there are significant capital and operational costs associated with the emissions reduction activity however without the option of registering a new ERF project, or accessing the deemed surrender mechanism, there is also no longer an external incentive via the ERF to undertake this activity.

	<p>There is also no incentivisation via the reformed Mechanism because any reduction in emissions associated with electricity results in a corresponding reduction in the facility's baseline (the baseline reduction occurs because electricity production is a production variable used to calculate the baseline of the LNG facility).</p> <p>The reforms could address this by either retaining an ERF crediting method for these decarbonisation actions, by awarding SMCs for the emissions reduction (e.g., for a set crediting period even if the Facility baseline is adjusted down) or changing the current production variable definitions (e.g., incorporate these production variables into other LNG facility production variables)</p>
<p>Should the inherent emissions variability calculated baseline approach be removed?</p>	<p>Woodside supports use of industry average emissions intensities and as such recommends that this approach to allow resetting of site-specific emissions intensities be removed.</p>