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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

Dear Deputy Secretary

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

Woodside Energy Group Ltd (Woodside) aims to thrive through the energy transition by building a low-cost, lower-carbon, profitable, resilient and diversified portfolio. Our climate strategy is an integral part of our company strategy and has two key elements: reducing our net equity Scope 1 and 2 greenhouse gas emissions and investing in the products and services that our customers need as they secure their energy needs and reduce their emissions.

This paper is Woodside's response to the proposed design of the Safeguard Mechanism (Mechanism) reforms put forward by the Department of Climate Change, Energy, the Environment and Water (DCCEEW) on 10 January 2023. This submission should be read in conjunction with Woodside's earlier feedback to DCCEEW on the Mechanism provided on 23 September 2022.

A fair, robust and transparent Mechanism can lead to a reduction in Australia's emissions, including by encouraging businesses to invest, innovate and adopt smarter practices and technologies in line with Australia's emissions reduction targets. This is consistent with DCCEEW's objective to maintain Australia's competitiveness in a decarbonising global economy while reducing emissions at its largest industrial facilities.

As a collective package, the architecture of the Mechanism reforms is largely sound and addresses our previous feedback related to market stability, emissions reduction outcomes, economic growth and industry equity. The level of ambition is consistent with the industrial sector's likely contribution to national emissions reduction and is reflected in our corporate emissions reduction targets. Most importantly, the Mechanism reforms also show how economic growth from responsible resource development can be consistent with achieving Australia's national emissions targets.

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

1. It is appropriate to apply the same decline rate at all Mechanism facilities. While the proposed decline rates are ambitious, they are achievable if there is:
    a. The ability to accrue and trade safeguard credits for performance that exceeds the baseline.
    b. There is access to deep, liquid and appropriately regulated domestic and international trading and crediting markets.
    c. The fund to support Emissions Intensive Trade Exposed (EITE) facilities is expanded to match the ambition and potential of the policy.
2. To build further confidence in the Mechanism design and outcomes, we recommend further detailed consultation on the setting of baselines and industry average emissions intensity values to avoid unintended consequences.

It is our view that the Mechanism reforms provide a significant opportunity to set a strong, clear and stable framework for business to operate within. Policy stability in this area is going to be key in maintaining Australia's reputation as a safe, secure and reliable exporter of natural resources and energy, while underpinning a strong domestic economy and employment.

Yours faithfully

**Tony Cudmore**
Executive Vice President – Strategy and Climate

## Attachment: Woodside response

| Mechanism policy proposal from the consultation paper | Woodside response |
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| **Emissions reduction task** | |
| The Safeguard Mechanism's 2030 target would be set at no more than 100 million tonnes (Mt) in 2030 and 1,233 Mt between 2021 and 2030, representing a proportional share of the national 2030 target and delivering an estimated 205 million tonnes of abatement (relative to current trends) by the end of the decade. | Woodside supports the Mechanism being proportionally aligned to Australia's 2030 target and net-zero 2050 trajectory. The proposed decline rates are ambitious but achievable, on the proviso that the other reform proposals occur and are effective. |
| **Baseline setting** | |
| Baselines for existing facilities would be set using a hybrid model initially weighted towards the use of site-specific emissions intensity values and transitioning to industry average emissions intensity values by 2030. | Woodside supports retaining and building upon the existing production adjusting framework to help meet the dual goals of reducing emissions and growing the economy. We welcome the proposal to move facility baselines to using industry average emissions intensity in the long-term as we believe this will incentivise and reward facilities with the lowest intensity.<br><br>Whilst we recognise that the proposed hybrid model balances views from stakeholders and also limits initial facility impacts, we note that it adds significant complexity (such as the proposals for recalculation and auditing of site-specific emissions intensities, which are further addressed below). |
| From the commencement of Safeguard Mechanism reforms in 2023-24:<br>• all facilities to be on production-adjusted baselines—reported, calculated and fixed baselines will no longer be available.<br>• all facilities to use published, Government-determined production variables. | Woodside would support the move to production-adjusted baselines and the use of Government-determined production variables however there are currently major flaws in how these variables are set that disincentivise important emissions reduction steps. Updates are required to remove the disincentive to reducing site based electrical emissions (through import of renewable or lower-carbon electricity from a separate facility) and / or introducing CCS.<br><br>The current production variables disincentivise implementation of these opportunities, because under the current arrangement both the facility baseline and the emissions are reduced, limiting potential differential gain. The extent of this for storage of reservoir carbon dioxide is dependent on the determined production variable storage rate. The process and criteria for setting of this storage rate is not currently clear. |
| In consultation with Safeguard businesses, the Government would:<br>• finalise and publish remaining production variables and industry average emissions intensity values; and<br>• review existing production variable definitions to ensure a comprehensive set of suitable production variables is in place when reforms commence. | Woodside looks forward to consultation on this matter. However as noted above we have concerns that the current treatment of electricity and reservoir carbon dioxide as separate production variables may not allow facilities to reduce emissions relative to baseline, reduce compliance costs and/or generate SMCs. |
| A reserve would be built into baseline decline rate calculations to ensure the 2030 target is met. The reserve would account for higher-than-expected production growth at new and existing facilities and trade exposed baseline adjustments. | The proposal to build a 'reserve' into the decline rate calculation is supported by Woodside as it builds redundancy into the Mechanism to ensure targets are met and ensures that production growth at new and existing facilities from emissions intensive and trade exposed facilities are accounted for.<br><br>We note that this reserve is in addition to Australia's Emissions Projections 2022, which already includes many planned and proposed new projects. |

| Mechanism policy proposal from the consultation paper | Woodside response |
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| All existing facilities' site-specific emissions-intensity values would be reset using historic data.<br><br>Facilities would need to apply for site-specific emissions-intensity values by 30 April 2024, with the application accompanied by an audit. | Woodside supports moving to historical site-specific emissions intensity values. However, the requirements to recalculate site-specific emissions intensity values for historic changes in NGERS reporting methods or regulation, and for mandated audits on historical site-specific emissions intensities (noting these weren't required for industry average emissions intensities development), introduce additional administrative burden to facilities.<br><br>To facilitate a smooth transition for resetting baselines, Woodside suggests the DCCEEW consider limiting the site-specific emissions intensity recalculation scope to changes in NGERs methods, rather than a complete recalculation, and removing the audit requirements for historical site-specific emissions intensities (where NGER facilities have been previously audited). |
| New facility baselines would be based on international best practice emissions-intensity benchmarks, adapted for Australian circumstances.<br><br>International best practice will also apply at existing Safeguard Mechanism facilities if they begin producing new products.<br><br>New entrant arrangements would commence from 1 July 2023, consistent with broader Safeguard reforms.<br><br>New facility baselines would be subject to an annual decline rate, consistent with baselines for existing facilities. | This proposal requires further site and industry specific consultation as it is unclear how international best practice emissions-intensity benchmarks would be established and if the broad definition of current production variables will allow for appropriate benchmarking or adaptation.<br><br>Woodside welcomes comments made by DCCEEW representatives during consultation that in some scenarios Australia already deploys industry best practice in facility design and operations.<br><br>We have concerns that the application of this approach may inadvertently apply to new production variables that do not represent a new facility or equipment construction. For example, it would not be appropriate for an existing LNG facility to be subject to this treatment in circumstances where it is switching its feedstock between unprocessed natural gas and processed natural gas. |
| **Crediting and trading** | |
| Access to flexible compliance arrangements will expand to include Safeguard crediting and trading (the former Safeguard Crediting Mechanism) from 1 July 2023 (facilities may earn tradable credits for emissions below their baselines). | Woodside supports this proposition and reinforces the importance of the reforms as a package to allow for lowest cost of abatement across the economy. Crediting and trading are a key mechanism to allow this to occur. |
| Facilities that fall below the coverage threshold would continue to be eligible to receive credits for five years, noting that their baselines will continue to decline. | Noted. |
| **Domestic offsets (ACCUs)** | |
| • Safeguard Mechanism facilities would be able to continue surrendering domestic offsets—in the form of ACCUs—to meet their compliance obligations.<br>• ERF projects that reduce covered emissions at Safeguard facilities will no longer be able to be registered.<br>• Projects that are already registered would continue to generate and sell credits for their existing crediting period but would not be able to enter into new contracts for Government purchase of ACCUs or extend their crediting period. | It is acknowledged that Emissions Reduction Fund (ERF) projects creating ACCUs will no longer be able to be registered at Safeguard facilities.<br><br>Woodside believes that carbon credit units such as ACCUs play an important role in emissions reduction and welcomes the ongoing support for the scheme. |

| Mechanism policy proposal from the consultation paper | Woodside response |
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| • Existing government-purchase contracts would remain in place, with 'deemed surrender' provisions grandfathered for two years from scheme commencement, then removed. | |
| **Banking and borrowing** | |
| Unlimited banking of SMCs allowed to 2030 with provision for borrowing up to 10% of the baseline each year (up to 2030) with a 10% interest rate p.a in the year after borrowing occurs. | Woodside supports the banking and borrowing arrangements to be implemented for Safeguard Mechanism Credits (SMC). However, it encourages a phased implementation of the borrowing interest rate of 10% p.a to encourage facilities to borrow pending supply of SMCs. This would encourage participants to establish the use of the SMC mechanism even where initial supply may be constrained.<br><br>A phased implementation will also mitigate the risk of a constrained ACCU market supply and facilitate unison between SMC and ACCU markets.<br><br>Removal or reduction in the borrowing interest rate during the first year of the scheme will also allow for effective adoption of the reforms as the two-month time window available between SMC issue by end January and surrender deadline by end March may prevent SMC trading activity in 2025 as facilities adjust to the reforms. |
| **International units** | |
| International offsets are not proposed to be part of the initial reforms. The Government may consider allowing access to high integrity international offsets at some future time and will consult in 2023 on the possibility of establishing the legislative framework for international units. | Access to a deep, credible, and liquid carbon credit market is essential to meeting the objectives of the Mechanism reforms and to take into account the nature of decarbonisation opportunities at some facilities, including some at Woodside. We strongly encourage DCCEEW to outline the process and urgent timeline for accessing international credits.<br><br>This is consistent with the Paris Agreement. At the COP-26 United Nations Climate Change Conference, national governments agreed to progress the rules for international carbon offset trading through Article 6 of the Paris Agreement. Woodside welcomed this outcome as a potential step towards broad acceptance of the use of international carbon credits in delivering emissions reduction targets.<br><br>We believe the focus should be on developing bilateral and multilateral approaches for the utilisation of international carbon markets, as it has the potential to accelerate rulemaking, support trading with key partners and bolster overall climate ambition.<br><br>For example, several of Woodside's key LNG customers and their host countries (Japan through JCM, the Joint Crediting Mechanism, and South Korea) are already utilising the international carbon market to incentivise nearer-term emission reductions. |
| **Emerging technologies** | |
| Five-year multi-year monitoring periods (up to 2030) available where a facility has exceeded its baseline due to lack of available technology but has a firm and credible plan in place | Woodside supports the continuation of multi-year monitoring periods (MYMP) to allow for step-change emissions reduction technologies to be deployed and ensure a long-term perspective is considered, including expansion of these periods noting the need to not extend beyond 2030. |

| Mechanism policy proposal from the consultation paper | Woodside response |
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| to reduce cumulative emissions before the end of the five-year period. | However, Woodside notes that the proposal to exclude facilities under an MYMP from being able to generate SMCs (in the event of greater than planned emissions reduction outcomes) removes some incentive and may limit uptake. |
| **Cost containment measure** | |
| A cost containment measure would make Government-held ACCUs available at $75 per tonne of CO2-e in 22/23, increasing with CPI plus 2% | Woodside supports the principle of the cost containment measure. We have concerns on the practical execution, source of supply and how this will impact the already illiquid market. Woodside welcomes further information from the government and market consultation. |
| **Compliance dates** | |
| Administrative dates for baseline applications and compliance would be amended and added to accommodate Safeguard Mechanism reforms. | Woodside supports the proposal. |
| **Tailored treatment of EITE businesses** | |
| **Two categories of facilities would be given access to tailored treatment to manage competitiveness and carbon leakage risks**<br>1. trade-exposed facilities, covers around 80% of Safeguard participants using an activity-based assessment (activities that relate to a commodity with a trade share above 10%).<br>2. trade-exposed, baseline-adjusted facilities, provide assistance for specific facilities that are trade-exposed and have an elevated risk of carbon leakage due to estimated cost impacts at the facility level. These facilities may apply for a lower baseline decline rate (2%) to reflect the specific impacts faced by each facility, to be locked in for 3 years. | The overall proposed approach to EITE is appropriate because it maintains emissions reduction trajectories and directly addresses financial costs with a financial response. This is better than addressing financial costs through a less ambitious approach to emissions reduction, which would undermine the purpose of the reforms. |
| Both categories above will have access to an initial, dedicated $600 million Safeguard Transformation Stream of the Powering the Regions Fund (PRF); and all Safeguard Mechanism facilities will have preferential treatment for access to other PRF streams, where they are eligible, such as through additional weighting in the criteria for assessment. | The fund for decarbonisation projects is welcomed and is the best way to support EITE facilities whilst maintaining decarbonisation. However, the current fund may not be sufficient relative to the signalled policy intent – particularly when compared to a number of international jurisdictions.<br><br>There will also be a need to monitor the fund to ensure it is effective in allowing facilities to reduce emissions.<br><br>Woodside acknowledges that the Powering the Regions Fund may also allow for support of decarbonisation through electrification or renewable electricity import at safeguard facilities which is not currently covered under the reforms. |
| The Government will undertake a review to explore policy options to further address carbon leakage. This review will consider CBAMs as a potential response to carbon leakage that could complement Safeguard Mechanism reforms. | Noted. |
| **Baseline decline rates** | |
| Proposed to be 4.9% each year to 2030. This will apply to all Safeguard facilities unless a lower decline rate has been approved for a facility under the EITE treatment approach. | This is ambitious but achievable so long as the package as a whole (including SMCs, expedited access to international offsets, and expanded EITE support) is implemented effectively and as a whole. To exceed the nominated decline rates would require substantial technology improvements and implementation in the short- to medium-term (for example the rapid uptake of CCS). |

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| Decline rates for 2030-31 to 2034-35 would be the subject of consultation in 2026-27 following Australia's required NDC update in 2025 and made by 1 July 2027. | Noted. |
| To maintain progress to net zero by 2050, indicative annual decline rates would be set for 2030- 31 to 2049-50, noting that the actual rate will need to be set through the periodic baseline setting process. | Woodside supports this proposal. |
| **Compliance and enforcement** | |
| The civil penalty, while not expected to be imposed as it will be more expensive than the cost of compliance, to be updated so it reflects both the number of days in exceedance and the quantity of excess emissions. The maximum civil penalty to be set at 1 penalty unit per tonne of excess emissions per year and the infringement notice charge at one-third of the maximum civil penalty to a maximum of 150,000 penalty units. From 1 January 2023, a penalty unit will be $275. | Noted. |
| Anti-avoidance measure introduced to prevent a business from defining, or redefining, a facility with the intention of avoiding Safeguard Mechanism obligations. | Noted. |