

Please direct all responses/queries to:

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Climate Change Authority

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Dear Sir or Madam

RE: REVIEW OF INTERNATIONAL OFFSETS: CONSULTATION PAPER

Woodside Energy Limited ("Woodside") welcomes the opportunity to comment on the Climate Change Authority (CCA) consultation paper on its Review of International Offsets (Review). Woodside believes that offsets play an important role in greenhouse gas emissions reduction but recognises that there are important conditions on their use. Woodside notes the progress made at COP-26 on rules for international carbon offset trading through Article 6 of the Paris Agreement, as well as other initiatives to clarify appropriate carbon offsetting standards.

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. It 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 reduce their emissions.

In 2020, Woodside announced targets for near- and medium-term emissions reduction below the gross annual average equity Scope 1 and 2 greenhouse gas emissions over 2016-2020.¹ These targets are to reduce net equity Scope 1 and 2 greenhouse gas emissions by:

- 15% by 2025
- 30% by 2030
- Towards an aspiration of net zero by 2050 or sooner.

Woodside can achieve its net equity Scope 1 and 2 greenhouse gas emissions reduction targets in three ways:

- Avoiding greenhouse gas emissions through the way we design our assets;
- Reducing greenhouse gas emissions through the way we operate our assets; and
- Originating and acquiring offsets for the remainder.²

Avoiding and reducing emissions are our first priority when planning how to achieve our net equity Scope 1 and 2 greenhouse gas emissions reduction targets. However, offsets – where emissions from within

¹ 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. Post-completion of the Woodside and BHP petroleum merger (which remains subject to conditions including regulatory approvals), the starting base will be adjusted for the then combined Woodside and BHP petroleum portfolio.

² Woodside established a carbon business in 2018 to develop a sustainable offset portfolio in support of our base business and new energy projects. We acquire offsets from carbon markets and originate our own, managing them on a portfolio basis to optimise the cost of meeting both regulatory and corporate targets. This approach is intended to manage the risk of future changes to the cost, availability and regulatory framework for offsets, by developing a diverse portfolio differentiated by vintage, methodology and geography. We retire offsets annually to meet our net equity Scope 1 and 2 greenhouse gas emissions reduction targets.

Woodside's business are balanced by reduction or avoidance of emissions elsewhere – also play an important role. We are working to develop our Carbon, Capture and Storage (CCS) capabilities and established a dedicated team to build partnerships and assess opportunities for the large-scale deployment of CCS. It is important that we acknowledge there will always be emissions that are not captured by CCS or CCU and offsets will remain important in our decarbonisation journeys.

In the short- to medium-term, offsets can help to accelerate net equity emissions reduction beyond technical and economic limits for avoidance and reduction opportunities within the economy, or while these opportunities are being implemented. This is important because near-term net emissions reduction preserves the world's carbon budget, which is the amount that can be emitted prior to achieving net zero emissions, if it is to stay within any given temperature increase.

In the longer-term, some of the technologies that underpin offsets are expected to play a sustained role in both neutralising the emissions from hard-to-abate sectors, and in driving towards “net negative” global emissions so that the concentration of greenhouse gases in the atmosphere begins to reverse. Woodside's use of offsets provides investment into these technologies to help them develop and scale, and our direct participation helps to improve the robustness of methodologies and accounting techniques. The importance of carbon dioxide removal has most recently been described in the IPCC's AR6-WG1 report: “*Anthropogenic CO₂ removal (CDR) has the potential to remove CO₂ from the atmosphere and durably store it in reservoirs (high confidence).*”³

Woodside recognises that the acceptability of some offset technologies might change over time. Woodside recognises that there are important conditions on the use of offsets, such as the emissions reduction hierarchy that prioritises avoiding and reducing emissions before offsetting them, and that offsets must be scientifically verified and accurately accounted for using robust methodologies.

At the COP-26 United Nations Climate Change Conference 2021, world governments agreed to progress the rules for international carbon offset trading through Article 6 of the Paris Agreement. Woodside welcomes this outcome as a potential step towards verification of the use of offsets in delivering against climate ambition. Woodside also notes that there are non-governmental initiatives which aim to bring greater clarity to the appropriate use of offsets. For example:

- The *Oxford Principles for Net Zero Aligned Carbon Offsetting* were published by the Smith School of Enterprise and the Environment at the University of Oxford in September 2020.⁴ They propose a hierarchy for how offset portfolios might develop; and
- The *Integrity Council for the Voluntary Carbon Market (ICVCM)* has been established with the stated purpose “*to ensure the voluntary carbon market accelerates a just transition to 1.5°C. We do this by setting and enforcing definitive global threshold standards, drawing on the best science and expertise available, so high-quality carbon credits channel finance towards genuine and additional greenhouse gas reductions and removals that go above and beyond what can otherwise be achieved, and contribute to climate resilient development.*”⁵ The ICVCM intends to consult on the formation of “core carbon principles” from May 2022.

As both an investor in carbon origination projects and a purchaser of offsets via carbon markets to meet our regulatory and corporate targets, we recommend that the CCA consider the following propositions in its Review.

- The validity and role of carbon offsets in achieving greenhouse gas emissions reduction should be clearly described;
- The Climate Active Carbon Neutral Standard has the ability to provide guidance to industry in relation to best practice in terms of eligible offset units and retirement protocols;
- International consistency and integration should be promoted in order to develop appropriate standards of greenhouse gas integrity through ensuring accurate measurement, reporting and verification processes. For example, we believe Climate Active standards should align with those accepted by other international carbon market participants such as Verra, JCM, American Carbon Registry and any changes to new arrangements be accompanied by clear transition timeframes;

³ IPCC (2021). “Climate Change 2021 – the Physical Science Basis. Summary for Policymakers. Working Group I contribution to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change, page SPM-39.

⁴ University of Oxford Smith School of Enterprise and the Environment (2020). “The Oxford Principles for Net Zero Aligned Carbon and Offsetting.”

⁵ ICVCM (2022). <https://icvcm.org/about-the-integrity-council/>. Accessed online 21 March 2022.

- In the context of supporting global efforts to advance Article 6 of the Paris Agreement, we believe a focus on developing bilateral and multilateral approaches for the utilisation of international carbon markets has the potential to accelerate rulemaking, simplify trade interactions and bolster overall ambition. Several of our key customers and their host countries are already utilising the international carbon market to incentivise nearer-term emission reduction and could benefit from a clearer cross-border framework; and
- In addition to greenhouse gas emission reduction, offsetting activities worldwide have the potential to deliver benefits including access to clean affordable energy, positive health outcomes, local employment, biodiversity and natural capital protection. However, the quantification of these benefits is difficult to calculate and verify. Transparency and detail around co-benefits and the promotion of adequate environmental and social safeguards is vital to ensuring integrity in the market.

We commend the Australian Government on the establishment of the Indo-Pacific Carbon Offsets Scheme and believe it presents an opportunity to create shared value through supporting countries' ambitions to reduce net emissions whilst simultaneously delivering real action towards other United Nations Sustainable Development Goals.

We would be pleased to meet with the CCA to provide further information on the issues and opportunities identified above.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Smg 77', is positioned above the printed name and title.

Shaun Gregory
Executive Vice President Sustainability