Australian Government
Climate Change Authority

CLIMATE CHANGE AUTHORITY

REVIEW OF THE EMISSIONS REDUCTION FUND 2020: COVER SHEET FOR WRITTEN SUBMISSIONS

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Date of submission: 10 June 2020

Submission Instructions

The Authority encourages submissions from organisations and individuals on all issues relevant to this review by **20 May 2020.** We have identified key areas of focus in the consultation paper.

Your contributions are valued greatly by the Authority and will inform the Authority's final review report on the legislation, which is due by 31 December 2020.

The Authority will also talk to stakeholders to complement the written submissions.

Submissions can be made:

via email submission@climatechangeauthority.gov.au

via post Submissions
Climate Change Authority
GPO Box 787
Canberra ACT 2600

Contacts

Should you require further information about making a submission please contact the Authority on freecall 1800 475 869 or via email at submission@climatechangeauthority.gov.au.

Confidentiality and publication

Your submission may be published.

Submissions not marked as confidential may be published on the Climate Change Authority's website. The Authority welcomes submissions made in a respectful manner and while the Authority values public consultation highly and seeks to be transparent, it is under no obligation to publish submissions it receives and reserves the right not to publish submissions on its website that raise legal or other concerns.

For submissions made by individuals, all personal details other than your name and the state or territory in which you reside will be removed from your submission before it is published.

Please do not include information about third parties of a private nature unless you have permission to do so.

If any part of a submission should be treated as confidential, please provide two versions of the submission, one with the confidential information removed for publication. If you choose not to use this cover sheet and wish your submission to remain confidential then the document should be clearly marked as confidential.

Do you want this submission to be treated as confidential? ☐ **Yes xNo**

Do you understand the information provided about confidentiality and publication?

☒ **Yes** ☐ **No**

Signature of submitter: FS.

Date: 10 June 2020

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10 June 2020

2020 REVIEW OF THE EMISSIONS REDUCTION FUND
C/- Climate Change Authority
GPO Box 787
Canberra ACT 2600

By email: submissions@climatechangeauthority.gov.au

Dear Sir or Madam,

2020 REVIEW OF THE EMISSIONS REDUCTION FUND

Woodside thanks the Climate Change Authority for the opportunity to comment on the 2020 review of the Emissions Reduction Fund (ERF). Our submission builds on previous Woodside submissions to the Government on various aspects of the ERF including the Expert Panel Examining Opportunities for Further Abatement October 2019. We note the release of the Report of the Expert Panel (the King Review) and the Federal Government's response to it, and recognise that some of our points below are already captured in the Governments response, however feel it is important to include in this context.

Woodside is the pioneer of the LNG industry in Australia and the largest Australian natural gas producer. We have a global portfolio and are recognised for our world-class capabilities as an integrated upstream supplier of energy. As Australia's premier LNG operator, we produce 6% of the current annual global LNG supply. Woodside accepts the science of climate change and supports the Paris Agreement as a means to respond. The Paris Agreement sets an implicit target of reducing emissions to net zero by 2050, as well as placing the primary responsibility for setting emissions targets and emission reduction policies on national governments. We are well positioned to benefit from a global shift towards a lower carbon economy, with a portfolio that comprises primarily natural gas. For example, the International Energy Agency's 2019 report "The Role of Gas in Today's Energy Transitions"[1] examined the role of fuel switching from coal to natural gas. The report found since 2010, coal-to-gas switching has saved around 500 million tonnes of CO2.

As a liable entity under the National Greenhouse and Energy Reporting (NGER) Safeguard Mechanism (SGM), we welcome the Federal Government's efforts to establish and improve a sustainable carbon market that enables confidence for proponents, investors and liable entities. We believe that such a market would display a number of characteristics as listed below:

- High levels of integrity, in both the robustness of the carbon accounting methodologies underpinning the market and in the operational and contractual standards of the market participants;
- Be deep, liquid and transparent in order to provide participants with a sound basis for planning and business risk-taking;

[1] https://www.iea.org/publications/roleofgas/

- Primarily be driven by the demand established by Australia's compliance obligations, i.e. towards meeting Australia's Nationally Determined Contributions (NDC) under the Paris Agreement; and
- Support the capture of other environmental and economic benefits such as landscape regeneration and biodiversity, regional employment, and technology development.

Specific comments on the Discussion Paper are attached (Attachment A).

Thank you for the opportunity to contribute and Woodside would be pleased to meet with the Climate Change Authority to provide further information and discussion.

Yours faithfully,

Shaun Gregory
Executive Vice President, Sustainability

ATTACHMENT A
Comments on the topics outlined in the Discussion Paper

Discussion Paper section 3: Overall performance of the ERF

The ERF has played an important part in placing Australia on course to meet its first Paris Nationally Determined Contribution (NDC) to reduce emissions to 26-28% below 2005 levels by 2030. It has done so by purchasing offsets whilst other elements in the policy framework, e.g. the Safeguard Mechanism, have held industrial emissions flat, or are aimed at further decarbonisation (e.g. Snowy Hydro 2.0). The ERF performs its function whilst reducing costs to individual businesses and households, because direct government funding spreads the burden across the broadest community base.

Woodside believes the ERF has been successful in generating offsets under the vegetation and waste methods. To date, most ACCU supply has been from vegetation management projects, waste sector projects and savanna fire management projects. While there are projects registered in all states and territories, we note there are geographical concentrations associated with certain methodologies.

Activities supported through the ERF are providing financial, environmental, economic, social and cultural benefits for farmers, businesses, landholders, Indigenous Australians and others. The ability for offsets to be generated from existing and more traditional land-use is allowing diversification of income sources.

There are a number of areas where the ERF could be streamlined to improve its operation and to increase opportunities to undertake cost effective abatement. Key amongst the barriers which could be addresses are:

- Relatively short contract periods, which can prevent larger, longer term and/or capital-intensive projects from seeking funding and contracts.
- The ERF's 'make good' provisions, which can raise the cost and risk of ERF participation to levels that prevent participation.
- Onerous baseline setting, assurance and governance requirements that hamper the uptake of other methods such as the facilities and transport methods.

Discussion Paper section 4: Maintaining Integrity and optimising governance of the ERF

4.1 Crediting genuine, additional abatement
In Woodside's view, the ERF is underpinned by the robust legislative and governance frameworks in the Carbon Credits (Carbon Farming Initiative) Act (CFI) and subsidiary legislation which ensure the integrity of Australian Carbon Credit Units (ACCUs) credited under the CFI's methodologies. The framework includes the six legislated offset integrity standards which the independent Emissions Reduction Assurance Committee (ERAC) must confirm have been met to allow a methodology to be made. These high levels of integrity are particularly important to give confidence to the market relating to the creation, trading and surrender of ACCUs.

4.2 Governance to support a mature ERF
The key priorities for ERF governance are increasing transparency, and administrative simplification.

With respect to transparency, priorities are:

- Greater visibility of existing contracts with the government would enable private sector investment through re-contracting. Whilst there may be limits due to the commercial confidentiality of the contracts, being able to identify the current holders of ACCUs and the delivery schedule for their projects will simplify the path towards transactions with the private sector.
- Real-time public visibility of Australian National Registry of Emissions Units as per the Verified Carbon Standard registry.
- Development of strong, stable demand signals from government or the private sector.

With respect to simplification, priorities are:

- Simplification of the baseline setting, assurance and governance requirements for allowing energy efficiency and transport projects to participate in the ERF through the Facilities and Transport Methods.
- Further standardisation of commercial and contractual documentation to support greater market participation. Many market participants are individual landholders or small entities that may have

limited access to legal and commercial advice. Development of standardised documentation that can be adopted across the market will help simplify and "de-risk" broader market involvement.

- Consideration of opportunities for private sector collaboration with the ERF auction process, such as the private sector contributing additional funding to purchase ACCUs from bid at or above the auction price ceiling; the private sector offering to contract abatement on bids post the 10-year maximum contract length allowable for ERF carbon abatement contracts; and allowing the private sector to purchase forward contracted delivery from ERF contracts allowing revenue to be reinvested into further abatement opportunities.

4.3 Method development processes

The development and refinement of methodologies is crucial to increasing market supply and simplifying the administration and management of abatement projects. Ensuring ERAC has adequate resourcing to invite submissions, review and provide determinations on methodology development can help unlock new abatement markets at scale. There are several existing and draft methodologies which Woodside sees as having potential to add scale to the market. These include fuel switching in transport applications, feral animal control, and livestock feed supplements.

Woodside notes that there has been limited uptake from the resources, transport and industrial sectors. These sectors can deliver large scale abatement, but typically have high capital expenditure requirements, which limits their ability to deliver cost effective projects through the ERF. Consideration should be given to a detailed consultation process with industry focussed on ways to improve the attractiveness of the ERF to large industrial facilities

Aspects of CFI methods (both existing methods and the development process of new methods) which could be reviewed include:

- Additionality requirements, aiming to find a suitable balance between incentivising abatement and maintaining environmental integrity.
- Crediting periods, because broadening the range of ERF projects may require thinking differently about crediting rules to account for vastly differing projects and circumstances.
- Transport – rationalisation and standardisation of baseline calculations will simplify project feasibility assessment and administration. Adoption of modelled baselines (like FullCAM and SavBAT) or default emissions intensities (similar to schedule 2 of the SGM Rules but applied to service units) can help unlock method potential.

Research and innovation that supports and encourages development of new and expansion of existing methodologies should be encouraged. Co-funding or incentives for such research programs should be supported based on their capacity to contribute significant depth and liquidity, their timing to market-readiness, the extent of collaboration and transparency across parties in the ACCU market (the blue carbon and CCS working groups are good examples), and the extent to which they leverage methods and method development activities already undertaken by other carbon offset verification bodies.

Examples of research could include:

- provision of scientific bases for crediting of environmental planting and HIR projects that cannot achieve the definition of forest (particularly 20% crown cover or 2 m height) in more marginal environments, but which nonetheless provide permanent carbon sequestration;
- further enhancing the savanna burning method to credit more of the sequestered carbon;
- identifying suitable blue carbon methods and locations;
- Woodside recently became a member of an initiative of the International Emissions Trading Association (IETA) which is aimed at creating global markets for carbon credits generated from Natural Climate Solutions. This initiative aims to pilot the use of land-sector credits for compliance purposes, using the lessons to inform the development of detailed rules underpinning Article 6. Land-sector credits are currently not accepted for compliance in most international jurisdictions with carbon pricing. Australia would be ideally placed to participate in such a pilot, given its depth of experience with this source of abatement.

Discussion Paper section 6: Opportunities for enhancing outcomes

As Australia develops future NDCs on its course to implementing the Paris Agreement and its implicit goal of net zero by 2050, a number of policy instruments will remain important. The ERF might be expected to significantly scale up in the transition to net zero. Continued offset acquisition by the Government can play an important role in both achieving the desired trajectory and in easing the burden on vulnerable sectors, such as those that are export exposed, hard-to-abate, or who need assistance to implement a 'just transition' for workforces and communities. Therefore, this submission makes suggestions for improving the current ERF, but also looks ahead to future phases in which it may scale up significantly and therefore need to expand the supply of available offsets.

Woodside therefore encourages the Review to consider the future role of internationally traded mitigation outcomes. Over the medium term there is potential for lowering the cost to business and the community of meeting Australia's current and future NDCs by linking with international carbon markets. Whilst Australia is on track to meet its current NDC without recourse to international markets, we note that the design and implementation of the architecture for such access will take a long time to develop. Continuing to pursue the agreement and implementation of arrangements under Article 6 of the Paris Agreement therefore needs to remain a current priority.