Please direct all responses/queries to:
Peter Metcalfe
Vice President of Climate Sustainability and Energy Policy

Woodside Energy Ltd.
ACN 005 482 986
Mia Yellagonga
11 Mount Street
Perth WA 6000
Australia
T +61 8 9348 4000
www.woodside.com

3 December 2024
Department of Climate Change, Energy, the Environment and Water
GPO Box 3090
Canberra ACT 2601

Dear Professor Frank Jotzo,

RE: CARBON LEAKAGE REVIEW – CONSULTATION PAPER – NOVEMBER 2024

Woodside Energy Group Ltd (Woodside) welcomes the opportunity to comment on the Department of Climate Change, Energy, the Environment and Water's (DCCEEW) second Carbon Leakage Review consultation. We welcome the attention to carbon leakage, which if unaddressed can undermine both emissions reduction efforts and economic competitiveness, and agree that a Border Carbon Adjustment mechanism is one way to address this.

The proposed mechanism aims to address the risk that Australian producers (whilst selling to the domestic Australian market) could be undercut by importers not subject to the same emissions standards, this is welcome but is incomplete. We recommend adding LNG to the products (aluminium and alumina, refined petroleum, and pulp and paper) to be considered during the 2026-27 SGM review (noting Australia's first LNG import terminal is expected to be operational by this time). We also recommend including ammonia products in the mechanism to create durable pre-conditions for the emergence of a lower carbon ammonia industry in Australia.

Additionally, we recommend further work be urgently undertaken to consider how to include similar arrangements for Australian producers that are selling into export markets. This is of critical importance to Australia, which forms a significant part of global energy and mineral supply chains, particularly into Asia where there are not currently reciprocal CBAM-like arrangements in place. The importance of this is further reinforced because many of our energy and mineral exports are sought by Asian markets as inputs to their own decarbonisation and secure energy transitions, creating an opportunity for Australians to prosper from supporting the regional transition.

Australia should expect to be a relatively low-emission producer of such commodities, due to the Safeguard Mechanism, but we expect will be currently unable to attract a 'green premium' to support the costs and investments required to achieve this. In support of both emissions reduction and Australia's economic interests, we should intend for our exports to have a level playing field against other suppliers that may not meet the same standards. A border adjustment mechanism is not the only potential response to this 'energy intensive trade exposed' issue for exporters, but can be one of them.

With respect to some of the specific items on which feedback is sought, we note that:

- **Offering importers a choice between a fee or surrendering ACCUs could have detrimental consequences.** Allowing ACCU use by importers would reduce the revenue collected to fund program implementation. The second priority for revenue should be funding technical and capacity building assistance for importers to cover their reporting costs. Additionally, allowing importers to surrender ACCUs could exacerbate potential forecast ACCU market shortfalls, affecting export industry competitiveness. Concerns related to carbon credit unit availability could be addressed by allowing eligible international units for both Safeguard Mechanism (SGM) and Boarder Carbon Adjustment (BCA) compliance. We would conditionally support allowing importers to surrender carbon credit units under these circumstances, subject to reviewing the detail of any such change.
- **Aligning a Border Carbon Adjustment mechanism to the Safeguard Mechanism could intensify existing Scope 2 challenges**. There is currently a disincentive under the SGM for decarbonisation through electrification from imported power as any reduction in electricity emissions 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 facilities. A Border Carbon Adjustment mechanism could create disparities between imported products. For example, if iron is produced using an electric arc furnace the importer would not need to account for Scope 2 emissions in the proposed mechanism, but a domestic facility trying to decarbonise with the same technology, using imported renewable or lower-carbon electricity, would not see a beneficial reduction in SGM

liability. Woodside has advocated for SGM reform to incentivise renewable or lower-carbon power import, it is crucial to address these Scope 2 disparities before implementing a Border Carbon Adjustment.

- **The cost of implementing emissions measurement, reporting and verification requirements is likely underestimated**. While less stringent than the European Union's Carbon Border Adjustment Mechanism (EU CBAM) as reporting is restricted to Scope 1 emissions, expensive supply chain data transfer and reporting system implementation should not be overlooked. It is important that the Scope 1 be specific to the product manufacturer, rather than the importer who may be a commodity trader or intermediary, in order ensure a like for like comparison.

We look forward to the final report and further engagement with DCCEEW on potential policy solutions.

Yours sincerely,

Tony Cudmore
Executive Vice President – Sustainability, Policy & External Affairs