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25 January 2023

## **bp Australia submission on the Safeguard Mechanism (crediting) amendment Bill 2022**

bp welcomes the opportunity to provide comment on the *Safeguard Mechanism (Crediting) Amendment Bill 2022*. This follows our previous submissions in response to the Consultation Paper: Safeguard Mechanism Reforms and draft legislation.

bp believes market-based policy to be the most effective and efficient way to reduce greenhouse gas emissions. bp reiterates its support for reforms to the Safeguard Mechanism to provide incentives for large emitters to reduce their emissions in support of Australia's emission reduction targets and the goals of the Paris Agreement.

bp understands that much of the detailed design for the reformed safeguard mechanism is intended to be set out in subordinate rules, not directly in the legislation. bp is still reviewing the government's proposal for the detailed design and draft rules and will provide our views on these as part of that consultation. In this submission we focus on those elements outlined in the legislation.

### **About bp**

bp's purpose is to reimagine energy for people and our planet. Our ambition is to become a net-zero company by 2050 or sooner; and to help the world get there, too. Globally bp aims to be net-zero across our operations (scope 1 & 2), in our oil and gas production (scope 3) and for the energy products we sell (life-cycle emissions intensity). For each of these, we have also set short-term targets (2025) and medium-term aims (2030). You can read more about our net-zero plans and progress in our [Net-Zero ambition report](#) released earlier this year.

Globally we are aiming to be a different company by 2030:

- reducing our oil and gas production by around 40% by 2030 and lowering emissions, while keeping up cash flow by high-grading our hydrocarbon portfolio and growing bioenergy;
- investing in low carbon energy to rapidly scale up in solar and offshore wind, and develop new opportunities in carbon capture and low carbon hydrogen.
- providing 100,000 EV charging points and opening more than 1,000 new strategic convenience sites.
- doubling down on five transition growth businesses, planning for more than 40% of the capital we invest to be in bioenergy, convenience, EV charging, renewables, and hydrogen by 2025.



bp is not acting alone with many of our partners and customers here in Australia and globally also committed to supporting progress towards a net-zero future.

Here in Australia some of our assets are, or will be if developed, safeguard entities. Many of our customers are also safeguard entities spanning many sectors like mining, freight and logistics, chemicals, and manufacturing. This means much of our local business will be impacted by the reforms, for example, our local business includes:

- LNG production with a share in the North West Shelf facility as well as the potential Browse reserve
- Liquid fuels supply, including to mining, freight and aviation
- Renewable energy with a 50 per cent ownership of LightSource bp the largest solar developer and operator in Australia, and alongside equity participation, our recent announcement to take operatorship of the Asian Renewable Energy Hub in the Pilbara with plans to supply renewable energy and low carbon hydrogen to domestic and export customers.
- Developing renewable fuels and green hydrogen production at our Kwinana site and another green hydrogen project Geri in the mid-west of Western Australia.
- Carbon Capture and Storage, with the recent award of a GHG Assessment Permit in the Carnarvon Basin which has potential to support the decarbonization of our own assets and the creation of a large-scale, multi-user hub.
- Providing decarbonized transport solutions like electrification and hydrogen for mobility.
- Low carbon trading team, that sources and trades a range of carbon offsets and compliance units for our own use and for our customers.

bp has a unique perspective because while we expect to face declining baselines for our large emitting assets, the reforms will also improve the business-case for our Australian based low carbon projects that form part of our global growth strategy. Consistent with our global and local business, bp welcomes well-designed policy that provides emission reduction incentives to large emitters in support of Australia's emissions reduction targets.

#### ***Creation of SMCs, crediting performance below baseline***

It is bp's view that the crediting of emissions performance below the safeguard baseline and the ability to trade those credits is essential to the reformed mechanism in driving incentives to reduce emissions. It encourages entities to reduce their emissions beyond what is required by their baseline if it is cost-effective to do so. This supports efficiency across safeguard entities, with the market determining the lowest cost abatement pathway for the sector as a whole. bp is therefore very supportive of the provisions that allow for these new Safeguard Mechanism Credits (SMCs) to be issued, held and traded.

bp supports legislation including SMCs in the Australian National Registry of Emissions Units and for SMCs to have similar ownership and transfer arrangements as Australian Carbon Credit Units (ACCUs). We are also encouraged that the SMCs will have similar legal characteristics to ACCUs, for example regarding tax treatment, being defined as a financial product and under anti-money laundering laws. We also welcome the provisions that would ensure the integrity of the SMCs should they be issued on the basis of false or misleading information, similar to ACCUs. Aligning these provisions should allow the SMC market to benefit from the experience and capabilities already developed for the ACCU market.



bp believes the provisions that allow for the rules to specify a percentage of all SMCs to be issued to a commonwealth account are redundant. bp understands that these provisions have been included to accommodate a potential option no longer proposed to address the risk of carbon leakage that would have seen SMCs earned by one facility provided to another to address carbon leakage. We are encouraged this option is no longer proposed and therefore consider the provisions redundant. We, like many others, did not support this option because it would undermine incentives to reduce emissions below baselines.

### *Compliance options for the safeguard entities*

Access to high integrity and but flexible compliance options will be essential for driving the emission reduction incentives under the reformed safeguard mechanism.

bp therefore supports the provisions of the legislation that allow for SMCs to be used to reduce a safeguard entity's net emissions number (that is, for compliance with the baseline), along with ACCUs that are already eligible. This is essential to drive incentives for entities to reduce their emissions below baselines and to give effect to efficiencies afforded with trading. We agree with the approach that they be equivalent to 1 tonne of CO<sub>2</sub>e for this purpose.

The ongoing access to ACCUs will also be essential to the reformed safeguard mechanism, as this provides an opportunity to level the incentives to reduce emissions between the safeguard mechanism and the rest of the economy. Given differences in cost of abatement between different sectors, it is appropriate that some parts of the economy will reduce their emissions faster or slower than the economy wide target. Access to ACCUs allows for emissions reductions to occur where they are most efficient, with aggregate baselines determining the share of the national target that safeguard entities are responsible for (the burden).

It is very important for the integrity of the safeguard mechanism and Australia's national target that ACCUs continue to represent genuine additional abatement. bp is encouraged by the findings and recommendations of the Independent Review of ACCUs and looks forward to working with government in their implementation to ensure the ongoing integrity of ACCUs.

bp notes the provisions that would allow the rules to set out certain limits on the types or number of units that can be used for compliance by safeguard entities and their broad nature. Careful consideration would be needed in exercising such provisions. Confidence in the compliance options is fundamental to the function of the reformed safeguard mechanism, so adding new restrictions/limits and any subsequent changes should not be taken lightly. Safeguard entities and other actors in the market will need confidence in the compliance options well in advance to plan their emission reduction activities and investments. Unexpected and/or frequent adjustments to the compliance options will add uncertainty and ultimately costs to Australia's transition.

### *Avoiding double counting*

bp is supportive of the provisions that would support the government's proposal to avoid the potential for double counting and ensure ACCUs are additional (that is no longer issued with respect to emissions covered by the safeguard mechanism). These are important for the integrity of the safeguard mechanism as well as ACCUs. bp is encouraged that these



provisions would still allow for safeguard entities to continue to participate in ACCU projects for emissions not covered by the safeguard, and for third parties to also receive ACCUs for emissions reductions not covered by the safeguard even if they also offer solutions to reduce safeguard covered emissions.

### *Closing remarks*

bp reaffirms its support for reforms to the safeguard mechanism to provide incentives for large emitters to reduce their emissions in support of Australia's emission reduction targets. We support the goals of the 2015 Paris Agreement on climate change and believe ambitious climate policies, like the safeguard mechanism reforms, will be essential to enable the world and Australia to meet these goals. We look forward to working with the government as the reforms are finalised.