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Safeguard Mechanism Taskforce
Department of Climate Change, Energy, the Environment and Water
GPO Box 787
CANBERRA ACT 2601

Dear Sir/Madam

RE: Safeguard Mechanism Reforms Position Paper and draft legislation

INPEX welcomes the opportunity to engage with the Department of Climate Change, Energy, the Environment and Water (the Department) and provide comment in response to the Safeguard Mechanism Reforms Position Paper (January 2023) and associated draft subordinate legislation (draft Rules).

For context, INPEX CORPORATION (INPEX) is an international energy company listed on the Tokyo Stock Exchange and is owned 19.97 per cent by the Japanese Government. INPEX has been an active member of the Australian business community since 1986 and, as operator of Ichthys LNG, is the largest Japanese investor in the country.

Climate change is a critical business issue for INPEX. INPEX supports the Australian Government's updated commitments and intentions made in June 2022 under the Paris Agreement, with a focus on 43% reduction in emissions by 2030 and net zero emissions by 2050. Last year, the company released its business strategy roadmap *INPEX Vision @2022*, which sets out the path to achieving the target of net zero emissions by 2050 while providing a stable supply of diverse and clean energy sources, including oil and natural gas, hydrogen and renewable energy. Further, INPEX is also committed to an interim target of 30 per cent reduction in scope one and scope two net carbon intensity over 2019 levels by 2030. Australia is one of five international regions globally prioritised for future investment opportunities.

INPEX is committed to the decarbonisation of its operations such as Ichthys LNG. In order for material decarbonisation to occur, significant investment in both the implementation of large-scale abatement projects employing current technologies such as carbon capture and storage (CCS) and the development of further low-emissions technologies will be required. INPEX believes that CCS will provide a highly effective means of reducing emissions from LNG production and our company is actively pursuing this as critical part of its decarbonisation strategy.

The Australian Government recently awarded a greenhouse gas storage assessment permit to INPEX with joint venture partners TotalEnergies CCS Australia and Woodside Energy¹. This will establish the opportunity for significant emissions reductions via the development of a world-class carbon storage project offshore northern Australia by around 2030.

The proposed Bonaparte CCS Assessment Project is more than simply a means to decarbonise the existing INPEX-operated Ichthys LNG. It is also a step towards a world-scale CO₂ storage operation that would not only underpin the expansion plans for Ichthys

LNG, but also support the development of the 1500-hectare Middle Arm Sustainable Development Precinct and the Northern Territory Low Emissions Carbon Capture Utilisation and Storage Hub. The hub concept offers the potential to facilitate carbon reduction for third party operations, and to underpin the development of new energy such as hydrogen. In addition to CCS, INPEX will seek to decarbonise Ichthys production through the staged introduction of firm renewables to power its production facilities in Darwin.

INPEX appreciates the complexity in the design and development timeframes for implementation of these reforms and the considered approach the Department has taken to date. However, for greater certainty, INPEX is seeking further clarification of the policy design and implementation of the Safeguard Mechanism. Our submission highlights these matters, but we have also suggested alternatives for consideration by the Australian Government.

To note, the attached submission builds on the views expressed in previous INPEX submissions, including the Department's Safeguard Mechanism Reforms – August 2022 Consultation Paper and the subsequent consultation on draft primary legislation.

Further, INPEX is a member of the Australian Petroleum Production and Exploration Association (APPEA), the peak national body representing the upstream oil and gas exploration and production industry. The attached submission has been prepared to complement the APPEA submission, which reflects INPEX's views.

Thank you for the opportunity to participate in the Government's consultation process. If we can assist further, please contact John Williams, Government Affairs and Approvals Manager at john.w@inpex.com.au.

Yours sincerely,



Tetsu Murayama
Senior Vice President Corporate

ⁱ See INPEX Press Release - [INPEX-led Bonaparte CCS Assessment Joint Venture awarded acreage offshore Northern Territory in Australia | INPEX](#)

Baseline setting

Baseline decline

INPEX considers that the proposed initial 4.9% rate of baseline decline to 2030 is aggressive and will create a material cost impost for those sectors who have limited capacity to implement material decarbonisation projects in the near term. Such costs would need to be born in parallel to the significant upfront capital costs associated with delivering large-scale abatement projects.

We recognise that the proposed steeper decline to 2030 (4.9%) followed by a decreased indicative decline rate post this, provides assurance Australia's 2030 target will be achieved. A "fast start" also reflects a desire to "catch up" on emissions reductions that occurred in previous years. We note however that this "fast start" applied across all Safeguard Mechanism (SGM) facilities is contrary to feedback from industry concerning its lack of near-term capacity for material decarbonisation (given available technologies and timeframes for implementation) and furthermore contrary to the policy statement in the Powering Australia Plan that "the Department and the Regulator will carefully consider the available and emerging technologies in each sector".

We note that an annual decline rate of 4.9% provides for the SGM to deliver a proportionate share of the national 2030 target and also incorporates a reserve to account for higher-than-expected production growth at new and existing facilities and trade exposed baseline adjustments. A proportionate, fair, and efficient apportioning of the emissions reduction task will only be achieved if all sectors are subject to the same compliance mechanisms and carbon cost basis. Given that such a framework does not exist, we would urge the Government to carefully consider the appropriateness of the current decline rate, future rate updates and the design of current and future reserves for the SGM, and in doing so provide for an equitable distribution of the burden of the national abatement task on an economy-wide basis such that emissions reduction targets can be met efficiently and at least cost to the Australian economy.

INPEX recognises the importance of carbon emissions budgets in addition to the use of point targets, however such budgets should only be considered on an economy-wide basis. The establishment of carbon budgets for sub-sections of the economy and the enforcement of such budgets through compliance mechanisms applying only to those sub-sections will pervert the prioritisation of lowest cost abatement. We would urge the Government to provide greater clarity and transparency as to the envisaged decarbonisation trajectories for the rest of the economy and how these influence the design of the decline rates and reserves for the SGM both now and into the future.

Hybrid model

INPEX welcomes the use of a production-adjusted (intensity) baseline setting framework and new site-specific emissions intensities (SSEIs). A production-adjusted framework allows for the simultaneous pursuit of both reducing emissions and growing the economy. The use of SSEIs serves to address headroom, provides a fairer outcome for those sectors and facilities where emissions intensities are driven

by inherent resource characteristics and ensures that all SGM facilities are incentivised to reduce their emissions from the commencement of the reforms. The proposed mechanism for the calculation of SSEIs seems appropriate and takes into consideration all policy principles.

Given that baseline decline rates can be calibrated to meet emissions reductions targets, the proposed hybrid model involving a transition by 2030 to industry average emissions intensities (EIs) is unnecessary. Declining baselines will provide a sufficient driver to decarbonise. Whilst the hybrid model does, in the near term, address cost inequalities due to inherent resource characteristics, such inequality will persist and cannot be overcome. For most of the capital and emissions intensive industries covered by the SGM, relocation of production is not feasible and the argument that the existing production would move to where it is least emissions intensive does not seem applicable. As such, if a transition to industry average EIs is ultimately deemed necessary, then such a transition could be undertaken more gradually without an arbitrary completion year of 2030. INPEX considers that the initial 10% per year change in SSEI and industry average ratio could be maintained beyond 2026/27.

New entrants

In the case of new production, the impacts of proposed reforms are likely to be factored into investment and design decisions. As such, the proposal to hold new facilities to international best practice standards current at the time of the commencement of reform is appropriate.

The determination of international best practice EIs will require careful case-by-case consideration to produce fit-for-purpose EIs for an Australian context. INPEX therefore urges the Government to work closely with industry bodies, including APPEA and other relevant stakeholders, to ensure these are set appropriately.

INPEX also encourages the Australian Government to continue to work closely with state and territory governments to ensure that legislative requirements relating to emissions management and reductions are complementary.

Treatment of EITE Facilities

INPEX welcomed the objective stipulated in the Powering Australia Plan to provide tailored treatment to energy-intensive trade-exposed (EITE) industries to ensure that exporters remain competitive, and that emissions do not 'leak' overseas. We do not consider, however, that the currently proposed measures would achieve the policy intent of ensuring emissions do not leak overseas, nor that these measures constitute tailored treatment.

The proposed activity-based assessment of trade exposure appears appropriate, and we appreciate the intent of the proposed Safeguard Transformation Stream (STS) and the intention to provide preferential access to remaining funding from the Power the Regions Fund (PRF) and to encourage the CEFC to prioritise investments that support businesses to meet their obligations under the SGM. INPEX considers that for such intention to be realised, the processes through which associated support

would be granted must be transparent and be focussed on the value the assessed initiative delivers with respect to decarbonisation. Significant opportunities for real decarbonisation may be unfairly overlooked if political intent is allowed to unduly influence these processes.

In light of increasing emissions reduction ambitions globally, a key factor that will determine whether carbon leakage will occur is the cost faced by Australian exporters relative to those faced by international competitors. The proposed mechanism seeks primarily to quantify the extent of the compliance costs faced by SGM facilities and does not contemplate the relative costs of international competitors.

Given the broad eligibility and limited funding available (A\$600MM in total) for the first category (i.e. trade-exposed facilities), and the very high threshold applied to the second category (i.e. cost impact metric exceedance of 3%), INPEX considers that these measures are insufficient to provide material assistance to address the scenario that costs for some sectors will be made higher relative to international competitors. This is especially so for those sectors already at a cost disadvantage.

While INPEX appreciates the provision of differentiated baseline decline rates for those facilities that meet the criteria of Trade Exposed Baseline Adjusted (TEBA) facilities, we do not consider the proposed assessment criteria, which is based upon a so-called "scheme cost", to be an appropriate measure of the overall cost of compliance. Consideration of compliance costs alone does not adequately reflect the burden of emissions reduction associated with the capital-intensive projects necessary for real decarbonisation of emissions-intensive industries. Whilst it may be argued that certain industries would be driven to decarbonise in order to remain internationally competitive, this does not contemplate that significantly higher levels of support (than those proposed through the PRF) are provided in other jurisdictions to enable this decarbonisation.

As a comparison we note that the United States has, through their legislative and regulatory framework, enshrined government support for emissions reduction through tax credits (US\$85 per tonne of CO₂ for CCS) and multi-billion-dollar grant programs (US\$4.85Bn for CCS announced to date) to facilitate, among other things, CCS activities and projects. This will enable US LNG projects developing an associated CCS project to reduce emissions without increasing the marginal price of the LNG they are exporting.

The consideration of revenue as the denominator in a cost impact metric is also problematic given that the calculation of this figure is not straightforward for joint venture arrangements and may require commercially confidential information to be divulged. Further, revenue is not an indicator of the capacity to absorb costs and is subject to significant volatility. INPEX does recognise and appreciate that the design setting locking EITE assessments for a 3-year period goes some way to alleviating concerns around the revenue volatility.

INPEX welcomes the proposed exploration of an Australian Carbon Border Adjustment Mechanism (CBAM) and looks forward to further consultation on this and other policy options to address carbon leakage. We consider that an export rebate for Australian producers competing with producers in regions that do not face the same carbon costs would be beneficial for EITEs. INPEX would highlight that for

some industries Australia is already at a cost disadvantage and as such ensuring a level playing field with respect to carbon costs should be considered a minimum if future investment in the associated industries is to be preserved.

Reservoir carbon dioxide emissions intensity

The default emissions intensity (EI) for reservoir CO₂ is currently provided in the National Greenhouse and Energy Reporting (Safeguard Mechanism) Rule 2015 (the Rule) as;

$$EI, \text{ reservoir carbon dioxide} = 1 - \text{storage rate}$$

Where storage rate is the fraction of the separated reservoir carbon dioxide injected into geological storage using carbon capture and storage (CCS), enhanced oil recovery or other petroleum reservoir management purpose, as determined by the Regulator for the facility and included in the baseline determination applicable to the facility.

The current definition of *storage rate* indicates that this is a facility-specific value, meaning this "default" EI is already contemplated as not being a true industry average.

The baseline emissions number for an existing facility (other than a landfill facility) for a financial year is provided within the exposure draft of the *National Greenhouse and Energy Reporting (Safeguard Mechanism) Amendment (Reforms) Rules 2023* by the formula:

$$ERC \times \left(\sum_p (hEI_p + (1 - h)EI_{F,p}) \times Q_p + EI_{B,p} \times Q_{B,p} \right) + BA$$

Where EI_B, in relation to a production variable for the facility for the financial year, is:

- a) if there is a best practice emissions intensity number for the production variable (PV) for the financial year—that number; or
- b) otherwise—the default emissions intensity number for the PV for the financial year.

The interaction of these definitions gives rise to a situation wherein those facilities whose baseline is comprised of some component of reservoir CO₂ would lose baseline commensurate with the sequestered amount should they undertake any project (CCS as an example) that decarbonises this PV, if the storage rate applied to the reservoir CO₂ EI would be updated annually as indicated in the Rule.

Whilst emissions would also decrease, the definition of the reservoir CO₂ EI gives rise to a problem that is unique to this PV, in that actions taken by a facility to reduce the emissions intensity are not in any way rewarded. Given that the EIs of other PVs are intended to be locked at the values available at the commencement of the SGM Reforms, subsequent improvements in the EIs of those PVs are incentivised by the potential for generation of SMCs for below baseline performance. This is not the case for the reservoir CO₂.

As baselines transition to an "industry average" basis this issue will eliminate below baseline performance incentives (i.e. SMC issuance). This issue in combination with the proposed elimination of the ability to register new ERF projects at SGM facilities will significantly disincentivise large upfront capital investments associated with CCS projects. CCS projects are critical to the achievement of the emissions reductions goals of LNG projects and therefore have the potential to provide a significant contribution to Australia's overall emissions reduction goals. This will especially be the case if clear near-term incentives exist to implement these projects at a scale that goes beyond compliance requirements and enables broader industry decarbonisation.

INPEX welcomes the initiative to review PVs to ensure they are fit for purpose and has understood that reservoir CO₂ will be included within the scope of this review. We look forward to working with the Department to arrive at an agreeable solution to address this issue.

Given that reservoir CO₂ is already by definition not an industry average but a facility-specific value, INPEX considers that multiple values for this EI are already deemed appropriate and that a simple solution would be to modify the definition of "storage rate" within the Rule to identify that this shall be the storage rate for a particular facility at a set time, nominally the commencement date of the associated Rule amendment, effectively fixing the value of this EI as will be done for other default EIs.

Electrification (Electricity generation production variable)

Given that scope 2 emissions are not covered by the SGM, there exists the potential for emissions leakage from the SGM that could result in overall greater emissions for Australia as a whole. This potential arises as there is no clear incentive for facilities that currently generate power onsite using fossil fuels, and who are intending to move towards grid connection to fulfill their power needs, to preference and pay a premium for this replacement power to be derived from renewable sources. As such, it's possible that associated emissions from imported power may be higher than if these emissions would have been produced from onsite power generation.

Where facilities have, at the commencement of SGM reforms, a portion of baseline associated with power generation, the emissions/baseline associated with this power generation will have been contemplated in emissions and emissions reduction targets for the SGM as a whole.

When a facility transitions to fulfilling their power demand through grid connected power, baseline reduction arises purely as an artefact of the way in which baselines are derived and no consideration is given to the complete "loss" of these emissions from the projections for Australia's emissions as a whole, i.e. this baseline is not then transferred to the power generation sector. Considering "baselines" holistically, it follows that real below "baseline" performance will still be achieved if emissions associated with generation of the power utilised is less than the baseline that would have been provided should that power have been generated on site and therefore that SMCs should still be generated.

INPEX proposes the following mechanism for calculating the SMCs that would be generated.

Power Import Baseline	$(MWh_{import} \times EI_{hybrid} \times \text{decline factor})$
MWh_{import}	$(LGC_{MWh} - RET) + MWh_{other}$
LGC_{MWh}	Imported power from renewable sources as evidenced by LGCs received
RET	RET Liability
MWh_{Other}	Imported power not from renewable sources
EI_{hybrid}	Emissions intensity of previous onsite power generation (hybrid of SSEI and Default Intensities as per ratio for the associated year)
Decline factor	SGM baseline derating factor for the associated year
SMCs generated	Power Import Baseline – Actual emissions of power import other than renewables

Notes:

- For simplicity and transparency in calculating SMCs generated through this mechanism the intent would not be to amalgamate the proposed Power Import Baseline into the facility's baseline. The Power Import Baseline would be conceptual only
- LGCs received for wholesale purchase of renewable energy would be cancelled
- "RET liability" is contemplated as a proxy for any mandated renewable energy usage and is subtracted from the total amount of renewable energy imported to ensure the crediting occurs only for genuinely additional abatement
- The above diagram assumes that actual emissions associated with imported renewable power are effectively zero

As an alternative to the above proposal, INPEX notes the Department's intent for ERF projects relating to an SGM facility's scope 2 emissions to still be registered and generate ACCUs.

Such projects could be designed around the emissions reductions that would arise out of long-term contracts between SGM facilities and renewable power generators,

specifically a facility's commitments to import progressively higher levels of renewable power over an agreed timeframe. Such a contract could provide a clear driver for renewable capacity build-out for the generator over and above the sectoral baseline reductions and the Renewable Energy Target thereby delivering additional emissions reductions.

Whilst this a sound mechanism for the longer term, INPEX considers that its proposal would be simpler and would additionally provide a more immediate signal to both maximise the utilisation of available renewal capacity and speed renewable capacity build-out.

Flexible compliance arrangements

Domestic Offsets

INPEX supports the continuation of current arrangements allowing SGM facilities to utilise ACCUs to meet their compliance obligations. This arrangement is fundamental to providing for a smooth transition to net-zero.

We are committed to the material decarbonisation of our facilities, however such decarbonisation requires time for implementation and, owing to the availability of relevant technologies, will not happen in a linear fashion. We therefore consider continued access to ACCUs to be a critical tool enabling INPEX to meet its decarbonisation goals and support the achievement of Australia's emissions reduction targets.

Given the likely scarcity of SMCs at the commencement of SGM reforms, any restriction on the use of ACCUs will simply result in those facilities above their baselines being subject to penalties that will have to be born in addition the capital that will be committed to decarbonisation activities.

International offsets

INPEX supports use of credible, high integrity international units for compliance under the SGM with the expectation that such units would be in accordance with recommendations of the Climate Change Authority (CCA), be approved by the Clean Energy Regulator (CER) and represent genuine abatement.

Whilst it is acknowledged that Article 6 measures remain under development, INPEX urges the design of the associated legislative and regulatory frameworks that would allow use of appropriate international units for compliance purposes in conjunction with the suite of amendments required for SGM reform. In particular, the necessary modifications to primary legislation to allow the use of international units in future would be a valuable early step, enabling further changes to subordinate legislation to occur at an appropriate time.

The intended consultation in 2023 on the possibility of establishing the legislative framework for international units is a welcome initial step. INPEX suggests it may be beneficial for the Government to consider a narrower range of units at the commencement of an arrangement to allow international units. For example, the

Indo-Pacific Carbon Offsets Scheme (IPCOS), where the Government has a direct role in ensuring that the associated units have high standards of environmental integrity and will deliver social and economic benefits for local communities, should be considered as the first type of unit to be eligible to be considered for SGM compliance. This should significantly allay stakeholder concerns over the integrity of the units to be utilised.

Multi-year monitoring periods

INPEX welcomes proposed five-year multi-year monitoring periods (MYMPs). Extended MYMPs, the eligibility for which is predicated on a reasonable anticipation that a facility's average emissions are below the average baseline over the extended period, will not only accommodate emerging technologies, but will incentivise facilities to develop and implement clear plans for a facility's structural decarbonisation in a way that a borrowing mechanism alone will not.

The MYMP application process will additionally provide the Government with insight into the pipeline for large-scale decarbonisation projects, the associated timeframes for delivery and technologies being leveraged. Such information will be valuable in forecasting performance against trajectories to the 2030 target and also in understanding the key technologies underpinning decarbonisation which may benefit from Government support for realisation at the most effective and efficient scale.

INPEX recognises the risk to Australia's 2030 target in allowing MYMPs to commence before, but finish after, 2030. Based on the timeframes for the delivery of material abatement projects, it is very likely that MYMPs will be useful for many SGM facilities around 2030. As such, INPEX urges the Government to consider, during the proposed review in 2026/27, allowing MYMPs to be extended post 2030, if the aggregate decarbonisation performance of the SGM facilities up to this time allowed for this. We consider that there is no logical downside to allowing MYMPs that would commence post 2030 and would urge the continuation of this arrangement.

Cost containment

INPEX appreciates the Government's intent in the provision of a cost containment measure to address concerns over price volatility and upside price risk in compliance costs. We are however concerned that the proposal to make Government-held ACCUs available at a fixed price could instead set a price floor depending on the availability of capped price ACCUs, the impact to market dynamics for ACCUs that the price cap creates and the scarcity of SMCs.

Strategies for the acquisition of sufficient ACCUs to provide for this measure should be carefully considered so as not to materially impact the secondary market for ACCUs and drive spot prices upwards. Any artificial scarcity created by limiting the availability of ACCUs to SGM facilities or the SGM as a whole must also, for similar reasons, be avoided.

INPEX recognises the intention to review the arrangement in 2026/27 but would urge the Government to closely monitor the impact of these arrangements and

move to review and modification as soon as possible if significant distortionary effects are identified.

With a view to simplifying this measure, and to reduce the administrative burden for all parties, INPEX suggests that instead of liable facilities being required to purchase and surrender the necessary price-capped ACCUs, liable facilities could instead elect to make payment for the relevant quantity of price-capped ACCUs. The Regulator could directly cancel these ACCUs eliminating the action for such ACCUs to be transferred to and subsequently surrendered by the liable facility. This would provide for the Regulator to manage the timing of the surrender/cancellation of associated ACCUs and allows this timing to be divorced from the administrative cycle for SGM compliance. In turn, this would allow inventories of associated ACCUs to be more readily controlled and would therefore avoid the potential for market distortions around the specific timing of SGM compliance cycle.

For liable entities, this would additionally reduce the risk that insufficient ACCUs would be available therefore limiting distortionary pressures from market behaviour associated with addressing this risk.

Banking

INPEX welcomes the proposed banking provisions allowing unlimited banking of SMCs to 2030 as a key mechanism for inter-temporal flexibility and appreciates the consideration given to SMC pricing stability and the impact on the investment in emissions reductions projects in deciding not to implement a phased approach with associated banking restrictions.

Given the lengthy timeframes for delivery of large-scale abatement projects, the timing of the commencement of material emissions reduction from these projects is likely to be in the reporting periods around 2030. Whilst we recognise the potential impact that banking may have on the achievement of the Australia's 2030 emissions reduction target, INPEX strongly urges consideration of allowing banking of SMCs pre- and post- 2030 to the extent that this would not compromise the 2030 target. The Government should take into consideration that emissions reductions targets and associated compliance obligations will extend to 2050 and that many facilities will still be in operation and facing an increasing need for compliance options as baselines continue to decline.

An assessment during the 2026/27 review of key abatement projects across the SGM facilities including expected volume of emission reductions and the expected timings for commencement of those reductions would, in conjunction with an assessment of progress to-date towards the 2030 target, be a sensible way to develop a considered mechanism for banking of SMCs pre and post 2030.