CLIMATE ENERGY FINANCE

Woodside faces major Safeguard hit as AGM looms

Tim Buckley, Director, Climate Energy Finance

26 April 2023

Ahead of gas giant Woodside's Annual General Meeting this Friday 28 April, the rhetoric from CEO Meg O'Neill during and after her Press Club address last week has been defiantly bullish. Casting aspersions on everyone from the Coalition Government to environmental protestors, O'Neill has continued to spruik bright prospects for Woodside's proposed Browse gas basin, a core component of the company's planned Burrup Hub in WA.

Woodside has in recent years been in its ascension, with Putin's invasion of Ukraine and the resulting global energy crisis precipitating record-breaking profits. But the company, in its haste to expand as far as possible while the going is good, risks lumping investors with a rather less palatable consequence: a multibillion dollar bill.

Woodside investors would be wise to take note of the detail in the newly legislated Federal climate policy, the Safeguard Mechanism. Independent modelling conducted by Climate Energy Finance has found that, under the Mechanism, the cumulative liability of Woodside and partners for the Burrup Hub LNG export project to 2050 is up to $63 billion, with Woodside carrying some 40% of this hefty hit.

The Safeguard Mechanism has been derided in some quarters for not ruling out new coal and gas projects in line with the climate science. But it does place significant financial demands on new projects. Woodside's proposed Browse and Scarborough gas basins will be required to be net-zero Scope 1 emissions from their first day of operation, which means investing in technologies to decarbonise the extraction and liquefaction of methane and/or purchasing either Safeguard credits from other companies that are beating their emission targets or buying carbon offsets. The prices of both of these options are very likely set to continue rising.

The inescapable liability that shareholders face even to get Browse off the ground should prompt the board to urgently re-evaluate the investment case for its fossil fuel expansion proposals in contradiction of the climate science and the need for all companies to align with net zero emissions pathways.

How Woodside proposes to push ahead with the Burrup Hub without crippling costs to investors is, as yet, unclear, despite Meg O'Neill's Press Club assurances. Browse gas is notoriously high in carbon dioxide, and Woodside has previously admitted that it will require carbon capture and storage technology in order to be viable, although the company appears to have walked this statement back in recent times. As it stands, Woodside has no sighted plans for carbon capture and storage for Browse or Scarborough.

All of this should give Woodside investors significant pause for thought. The spectacular and embarrassing six years of failure of the world's largest and most expensive carbon capture experiment at Chevron's Gorgon facility has revealed the folly of reliance upon this technology for pure play fossil fuel companies.

The high and rising price on carbon also puts pressure on Woodside to prove if carbon capture and storage can work consistently at the scale of industry lobbyists' oft-repeated claims – the track record of persistent underperformance at Gorgon would suggest not. Importantly, any investment in carbon capture should be paid for by Woodside. Are Woodside shareholders prepared to risk the farm on an unproven and hugely expensive tech fix?

Recent shareholder rumblings suggest they're not buying it. After a record-breaking 49% shareholder revolt against Woodside's climate plan at their Annual General Meeting last year, Woodside's board faces more hard questions in Perth on Friday. Two institutional investors have joined with activist shareholder group the Australasian Centre for Corporate Responsibility to demand that the directors be held to account for the board's "repeated failure" to present a credible climate strategy.

This is especially the case in light of the climate science, the rapid acceleration in the energy transition, a widening gap between growing supply of new capacity and demand as global LNG demand weakens in the face of extreme price volatility and hyperinflation, and increasing global decarbonisation momentum underpinning the risk of asset impairment and/or stranded assets as the industry enters structural decline.

Woodside has so far failed to acknowledge the full extent of the impact of the Safeguard Mechanism on its growth plans, but its board's approach is looking increasingly like a confidence trick. Woodside would do well to read the writing on the wall, do the right thing by its investors and to plough its capital and energy into a rapid decarbonisation strategy. The Mechanism provides a powerful economic incentive for Woodside to do this, for example by incorporating firmed renewable energy power to run the liquefaction facilities.

Woodside is the behemoth that is responsible for a full 1% of the global carbon budget to 2050, when the International Energy Agency and the science concur there can be no new coal or gas if we are to hold warming to 1.5 degrees. Investors are increasingly seeing through smoke and mirrors, and only a genuine response from its leadership will suffice. It is past time for Woodside to bring appropriate energy transition and climate science experience to its antiquated board, and to provide shareholders with a clearly articulated energy transition action strategy to deliver on emissions cuts this critical decade, and Scope 1-3 net zero emissions by 2050.