ACCR Investor Briefing

Woodside Petroleum Ltd (ASX:WPL, ISIN:AU000000WPL2)

AGM date and location: 19 May 2022, Perth, Australia

Dan Gocher, Director of Climate and Environment
dan@accr.org.au,

Harriet Kater, Climate Lead, Australia
harriet.kater@accr.org.au

Naomi Hogan, Strategic Projects Lead
naomi.hogan@accr.org.au

About ACCR

The Australasian Centre for Corporate Responsibility is a philanthropically-funded NGO that monitors environmental, social and governance (ESG) practices and performance of listed companies. We undertake research and highlight emerging areas of business risk through private and public engagement, including the filing of shareholder resolutions.

Contents

Background

ACCR has engaged regularly with Woodside Petroleum (Woodside) on its decarbonisation commitments and climate-related lobbying for several years.

In 2020, ACCR filed a shareholder resolution with Woodside seeking a review of its direct and indirect lobbying in relation to climate and energy policy. That resolution was supported by 42.66% of Woodside shareholders.

ACCR has filed two shareholder resolutions for consideration at Woodside's forthcoming AGM, on climate-related lobbying and decommissioning.

1. Ordinary resolution on climate-related lobbying

Shareholders request that our company cease all private and public advocacy, both direct and indirect, that contradicts the conclusions of the International Energy Agency (IEA) and the Intergovernmental Panel on Climate Change (IPCC) on 1.5°C alignment, including advocacy relating to the development of new oil and gas fields.

Nothing in this resolution should be read as limiting the Board's discretion to take decisions in the best interests of our company.

1.1 Reasons to support this resolution

Woodside accepts the science of climate change and acknowledges the goals of the Paris Agreement.[1]

The IEA's 'Net zero by 2050' report concluded that no new coal, gas or oil developments could proceed beyond 2021, in order to limit global warming to 1.5°C.[2]

However, Woodside's direct and indirect advocacy for the development of new oil and gas fields is counter to this goal, and destructive to shared and urgent decarbonisation goals.

ACCR encourages shareholders to support the resolution for the following reasons:

1. Advocacy for new and expanded oil and gas fields is at odds with the IEA's Net zero by 2050 pathway, which found that new fossil fuel projects were inconsistent with 1.5°C goals.
2. Woodside has not published a review of its industry associations since 2020, but it did publish a brief list of its 2021 advocacy; neither of which assessed the impact of unconstrained growth in oil and gas development.
3. Woodside has not identified any misalignment with its industry associations, nor has it attempted to change their advocacy beyond cosmetic policy changes.
4. Woodside has not made a commitment to conduct all of its lobbying in line with the Paris Agreement, and it would fail to meet many of the 14 indicators of the Global Standard on Responsible Corporate Climate Lobbying.[3]
5. There is no evidence that Woodside or its industry associations support ambitious emissions reductions policies.
6. Woodside's business model is heavily dependent on policies favourable to the gas industry, which may not persist into the future.
7. Woodside's influence on the Australian and Western Australian governments is clear, and poses a risk to substantive emissions reductions by 2030.

1.2 Climate urgency

The IPCC Working Group II Report on impacts and adaptation (2022) concluded that if warming exceeds 1.5°C in the "coming decades or later, then many human and natural systems will face additional, severe risks, compared to remaining below 1.5°C"[4] and that

[1] Woodside Petroleum Ltd, Climate Policy, Jan 2022, link, p7
[2] IEA, Net zero by 2050, 2021, link
[3] Global Standard on Responsible Corporate Climate Lobbying, Appendix: The 14 indicators of responsible climate lobbying, 2022, link
[4] IPCC, Climate Change 2022: Impacts, Adaptation, Vulnerability. Summary for Policymakers, 27 Feb 2022, link

"near-term actions that limit global warming to close to 1.5°C would substantially reduce projected losses and damages... compared to higher warming levels".[5]

In order to limit warming to 1.5°C, the IEA's Net Zero Emissions pathway (2021) forecast a significant decline in gas usage from 2025.[6] The IEA concluded that "beyond projects already committed as of 2021, there are no new oil and gas fields approved for development in our pathway".[7] The IEA noted that this pathway was "the most technically feasible, cost-effective and socially acceptable".[8]

Woodside's record of advocacy is at odds with the projected decline in use of fossil fuels required to limit global warming to 1.5°C.

1.3 Woodside's direct advocacy

In 2021, InfluenceMap found Woodside was the third most active company in Australia on climate and energy policy between 2018-21, scoring it D- (scale A-F) for its opposition to Paris-aligned climate policy.[9]

Woodside disclosed the following advocacy in 2021:[10]

- Woodside supported the issuing of credits to entities whose emissions are below their Safeguard Mechanism baseline, but advocated for those credits to be fungible with Australian Carbon Credits (ACCUs), which would undermine the mechanism.[11]
- Woodside called for gas to be prioritised for development in the Low Emissions Technology Roadmap.[12]
- Woodside agreed to participate in the Corporate Emissions Reduction Target (CERT) reporting pilot program.
- Woodside successfully lobbied for carbon capture and storage to be eligible for ACCUs.[13]

In a submission to a parliamentary inquiry into the prudential regulation of investment in Australia's export industries, Woodside advocated for further gas expansion, including the Browse development and North West Shelf (NWS) extension.[14]

In order to gain approval for the Pluto project, Woodside worked extensively with the Western Australian (WA) government to claim significant reductions in the project's projected carbon impact.[15] Independent analysis found the emissions plan exaggerated early cuts, made no firm commitments beyond 2030, and left 70% of reductions to 2045 and beyond.[16] The WA government claimed Woodside's plan was "in line" with its greenhouse gas emissions policy for major projects[17], ignoring the fact that Woodside lobbied heavily against emissions regulations proposed by the WA Environment Protection Authority in 2019.[18]

In March 2022, Woodside was given an organisational score of 41% in the Climate Action 100+ Net Zero Company Benchmark assessment of climate policy engagement for the CA100+ (conducted by InfluenceMap), indicating misalignment with the Paris Agreement.[19]

1.4 Woodside's indirect advocacy

Woodside has only published one review of its industry associations, in October 2020.[20] Woodside identified "some misalignment" with just one industry association - the Canadian Association of Petroleum Producers (CAPP). Woodside discontinued its membership of CAPP,[21] following its exit from the Kitimat LNG project in Canada.

Woodside's 2020 industry association review only considered cosmetic support for the Paris Agreement and net zero emissions.[22] It failed to assess advocacy for new oil and gas developments, support for subsidies for new oil and gas infrastructure, or advocacy on emissions reduction policies.

Woodside has stated that it will continue to monitor the climate positions of its industry associations, through regular reviews by its Executive Steering Group and Executive Committee.[23] However, the company does not state whether these reviews will be disclosed. This resolution is not calling for Woodside to exit any industry association group.

Table 1. Woodside's key industry associations

Industry association	**InfluenceMap rating***
Australian Industry Greenhouse Network (AIGN)	D
Australian Petroleum Production and Exploration Association (APPEA)	E+
Chamber of Mines and Energy Western Australia (CME)	E
International Association of Oil and Gas Producers (IOGP)	D+

**D or below = lobbying practices misaligned with the Paris Agreement*

APPEA's advocacy

Despite its notional support for net zero emissions by 2050, APPEA remains a serious obstacle to ambitious and effective national

[5] ibid.
[6] IEA, Net Zero by 2050, 2021, link
[7] ibid.
[8] Investor Group on Climate Change, IEA NZE Briefing, 2021, link
[9] InfluenceMap, Australia - Corporate Climate Lobbying, link
[10] Woodside, 2021 Climate Report, link
[11] Woodside, Woodside's comments on the Australian Government's discussion paper regarding the Safeguard Crediting Mechanism, 2021, link
[12] Woodside, Submission to the Technology Investment Roadmap Discussion Paper, Dec 2021, link
[13] Woodside, 2021 Climate Report, link
[14] Woodside, Submission to the Inquiry into the prudential regulation of investment in Australia's export industries, 2021, link
[15] Government of Western Australia, Strong emissions reduction targets approved for next stage of Pluto LNG, 2021, link
[16] Peter Milne, Woodside's real plan for Pluto LNG: delay action, not reduce emissions, Boiling Cold, 2021, link
[17] James Fernyhough, Woodside's "net zero" Pluto plan will allow emissions to more than double, RenewEconomy, 2021, link
[18] Cole Latimer and Hamish Hastie,'Brain explosion': Woodside, Canavan pile on WA government to dump EPA guidelines, SMH, 2021, link
[19] LobbyMap, 2022, Woodside, link
[20] Woodside, Industry Association Review, 2020, link
[21] ibid.
[22] ibid.
[23] ibid.

climate policy in Australia. APPEA's principal aim is to further the development of the Australian upstream oil and gas industry.[24]

While Woodside played a role in the update to APPEA's Climate Change Policy Principles in early 2021, the principles failed to reconcile APPEA's stated aim of expanding Australia's oil and gas industry with meeting the Paris Agreement's goals.[25]

Throughout 2020-21, APPEA published a series of reports that called for government support for the development of new gas basins, which led to the Australian government's "gas-fired recovery":

> ***"We believe that a successful future for Australian oil and gas will consist of developing the currently uneconomic or stranded discovered gas resources that abound through Australia's hydrocarbon regions. Using this gas is vital to extending the economic life and utility of existing gas and LNG infrastructure and thus maximise value from these assets."***
>
> APPEA, Australia Oil & Gas Industry Outlook Report, May 2020[26]

APPEA's Powering Australia's Recovery report[27] advocated for government incentives for further gas exploration, streamlining regulation and fast-tracking approvals for new development.

A 2020 EY report commissioned by APPEA[28] advocated for policies to develop multiple new gas basins that would require capital expenditure of $350 billion over the next 20 years. APPEA then cited these figures in its pre-budget submission in February 2022.[29]

In a 2021 submission to an Australian parliamentary inquiry, APPEA suggested that Australia can only meet the Paris Agreement by developing new gas resources.[30]

In February 2022, APPEA claimed that "Australia's gas industry will enjoy strong growth in demand stretching through to 2050".[31]

APPEA's influence over the Australian government was further demonstrated in a recent report from the Department of Industry, Science, Energy and Resources, which included a two-page message from APPEA CEO Andrew McConville, encouraging "long-term investment to grow Australia's LNG industry".[32]

APPEA has consistently promoted the long-term use of fossil gas in Australia's energy mix. In late 2020, APPEA advocated for fossil hydrogen to be introduced into domestic gas networks and is opposed to Victoria's Gas Substitution Roadmap.[33]

[24] APPEA, Annual Report 2019-20, p7
[25] APPEA, Australia's cleaner energy future, Feb 2021, link
[26] Wood Mackenzie, 'Australia Oil & Gas Industry Outlook Report', 2020, link
[27] APPEA, Powering Australia's Recovery, 2020, link
[28] EY, 'Australia's oil and gas industry: kickstarting recovery from COVID-19', 2020, link
[29] APPEA, 'The 2022-23 Federal Budget: Unlocking Australia's competitive advantage', 2022, link
[30] APPEA, submission number 62 to the Joint Standing Committee on Trade and Investment Growth, 2021, link
[31] APPEA, 'New Government report highlights gas demand for decades to come', 2022, link
[32] Australian Government, Global Resources Strategy Commodity Report: Liquefied Natural Gas, 2022, link
[33] Victorian Government, Submissions to the Gas Substitution Roadmap, 2021, link

Other industry associations

The Chamber of Minerals and Energy (CME) used a pre-budget submission to the Western Australian Treasury to advocate for "legislative change and industry support resourcing" hydrogen produced from fossil gas.[34]

If the merger with BHP Petroleum is successful, Woodside will likely become a member of the American Petroleum Institute (API). The API is one of the most obstructive industry associations on climate and energy policy globally.[35]

1.5 Australia's lack of climate policy

In 2021, Bloomberg ranked Australia's climate policies as the weakest of the largest developed economies;[36] Australia received the lowest score awarded to any of the 193 UN member states for climate action;[37] and Australia was ranked last out of more than 60 countries on climate policy by German think tank Climate Change Performance Index.[38]

Australia's approach to climate policy is has been heavily influenced by Woodside and its industry associations, including:

- The 'gas-fired recovery'[39] from the COVID-19 pandemic, by subsidising the development of new gas basins and associated infrastructure, including roads and pipelines;
- A 'technology not taxes' approach to emissions reduction, which prioritises unproven technologies, intended to prolong the use of coal and gas.

In March 2022, the UN Secretary General António Guterres labelled Australia a "hold out" for failing to commit to meaningful emissions reductions by 2030.[40]

1.6 Conclusion

Cumulatively, advocacy by Woodside and its industry associations has encouraged governments to support the expansion of the oil and gas industry in Australia. This advocacy is not aligned with the Paris Agreement, nor the goal to limit warming to well below 1.5°C.

In publishing a single review of its industry associations since ACCR's shareholder resolution in 2020, Woodside has not adequately disclosed its own advocacy or attempted to use its board position to constrain APPEA's advocacy, particularly with regard to the expansion of new oil and gas fields.

Shareholders must call time on lobbying at odds with the Paris Agreement and the goal of 1.5°C.

ACCR urges shareholders to support this proposal.

[34] CMEWA, 2022-23 pre-Budget submission to the WA Dept of Treasury, link
[35] Jillian Ambrose, 'US oil giants top list of lobby offenders holding back climate action', The Guardian, 4 Nov 2021, link
[36] BNEF, 'BNEF G20 Zero-Carbon Policy Scoreboard: Who's Doing It Best?', Feb 2021, link
[37] Sachs et al, The Decade of Action for the Sustainable Development Goals: Sustainable Development Report 2021, link
[38] Michael Doyle, 'Australia scores zero on climate policy in latest Climate Change Performance Index', ABC News, 10 Nov 2021, link
[39] Prime Minister of Australia, Gas Fired Recovery, 2020, link
[40] United Nations, '1.5-degree goal is on life support', YouTube, 2022, link

2. Ordinary resolution on decommissioning

Shareholders request that the Board disclose annually from 2023:

1. *A list of all onshore and offshore oil and gas infrastructure which may be decommissioned over the medium-term;*
2. *Audited asset-level provisions for the decommissioning of this infrastructure and restoration of sites, along with the major assumptions underpinning these provisions;*
3. *Analysis of the useful life of all assets using different oil and gas demand scenarios, including the IEA Net Zero by 2050 scenario.*

Nothing in this resolution should be read as limiting the Board's discretion to take decisions in the best interests of our company.

Current provisions and disclosures

Woodside is facing significant decommissioning obligations, which carry financial, reputational, regulatory, environmental and safety risks. Scrutiny around Woodside's decommissioning plans has increased since its mishandling of the Northern Endeavour case, which elevated political[41] and public[42] criticism of the company, attracted inter-industry critique,[43] and partly triggered a raft of legislative and regulatory changes, including the introduction of a non-deductible levy to be paid by all offshore oil producers.[44] Woodside may end up paying US$263 million[45] due to this levy, which dwarfs the initial US$95 million impairment reversal from the Northern Endeavour sale.[46]

"Decommissioning is the biggest industry time bomb that's just waiting to go off...even the big boys, it's going to have impacts on their balance sheets, all the numbers in this sector are underbaked. This is an area where it's all bad news" *Saul Kavonic, Credit Suisse[47]*

In its 2021 Annual Report,[48] Woodside recognised provisions for restoration of **US$2.218 billion**. The proposed merger with BHP Petroleum would see this figure increase by around US$3.9 billion[49] to **US$6.118 billion**. This equates to ~13% of the market capitalisation of the merged entity. Compared with previous years, the 2021 Annual Report[50] provides shareholders with additional detail on the company's group-wide assumptions for decommissioning provisions. It is understood this is due to an **ASIC investigation**, commenced due to "concerns about the offshore infrastructure assets that were not included for full removal in the restoration provision...and the adequacy of related disclosures"[51] in the 2020 Annual Report. The additional disclosures[52] include detail on the broad assumptions Woodside has deployed for all onshore and offshore infrastructure. Whilst Woodside assumes the majority of onshore infrastructure will be removed, the provisions reflect that a significant share of offshore infrastructure will still remain in situ, which is subject to regulatory approval and not guaranteed.

Woodside's April 2022 Merger Explanatory Memorandum provides "a list of installed onshore and offshore oil and gas assets and sets out when decommissioning expenditure is currently forecast...out to 2057-2061".[53] This suggests that at least US$2.7 billion will be spent on decommissioning by the merged entity between 2022 and 2031 and that the BHP Petroleum assets will be the major source of cost in that period.[54] The costs are based on the assumption that significant amounts of subsea infrastructure will be left in situ. Woodside recognises it is uncertain whether the regulator will approve this, noting the potential for "significant differences in the restoration provision,"[55] and that "there is a risk that Woodside will need to make further provision in its financial statements".[56]

Whilst Woodside has used this once-off disclosure as a key reason to not support ACCR's resolution, it is our view that due to the material uncertainties relating to regulatory approval, the significant short and medium-term works and the need to standardise its approach to provisioning post-merger,[57] an annual disclosure regime not unlike that displayed in the merger memorandum, along with enhanced climate scenario analysis, is in shareholder's interests.

Reasons to support this resolution

The primary reasons to support this resolution are:

1. Shareholders require improved annual disclosures to facilitate their ongoing understanding of this immediate and evolving risk for Woodside.
2. The materiality of BHP Petroleum decommissioning liabilities that Woodside would inherit post-merger enhances the need for annual disclosures from 2023.
3. There are genuine risks with under provisioning due to inappropriate assumptions, which impacts company value.
4. The regulatory and legislative environment for decommissioning has changed significantly in Australia.
5. Investors need to know that companies are stress-testing provisions under low demand scenarios such as the IEA Net Zero scenario. This should include consideration of different decommissioning assumptions.

[41] Commonwealth of Australia, 'Offshore Petroleum (Laminaria and Corallina Decommissioning Cost Recovery Levy) Bill 2021 - Treasury Laws Amendment (Laminaria and Corallina Decommissioning Cost Recovery Levy) Bill 2021', link
[42] AFR, 'Dud deal costs oil industry $3.4b', 28 January 2022, link
[43] Chevron, 'Offshore Petroleum (Laminaria and Corallina Decommissioning Cost Recovery Levy) Bill 2021 [Provisions] and Treasury Laws Amendment (Laminaria and Corallina Decommissioning Cost Recovery Levy) Bill 2021 [Provisions] Submission 9', link
[44] Sonali Paul, "Australia slaps tax on oil industry to pay for clean-up", Reuters, April 2022, link
[45] Based upon APPEA statement, Woodside production data and Australian Petroleum Statistics, Jan 2022
[46] Woodside, Annual Report 2016, p108
[47] Saul Kavonic (Credit Suisse), "Our Investment Environment" panel, 2021 APPEA conference, 16 June 2021
[48] Woodside, Annual Report 2021, link
[49] BHP, Annual Report 2021, p65, link
[50] Woodside, Annual Report 2021, link p129
[51] ASIC,"22-027MR Woodside Petroleum increases restoration provision and enhances associated disclosure", 21 February 2022, link
[52] Woodside, Annual Report 2021, link p129
[53] Woodside, Merger Explanatory Memorandum, April 2022, pp 69-71
[54] Woodside, Merger Explanatory Memorandum, April 2022, pp 69-71
[55] Woodside, Merger Explanatory Memorandum, April 2022, pp 69-71
[56] Woodside, Merger Explanatory Memorandum, April 2022, p 105
[57] Woodside, Merger Explanatory Memorandum, April 2022, pp 69-71

1. Disclosure of asset-level assumptions and provisions helps to assess under provisioning risk

In 2020, Wood Mackenzie estimated the cost of Australia's onshore and offshore decommissioning at more than US$49 billion (A$60 billion) over the next 30 years.[58] In Australia, as decommissioning is a young industry, such high-level cost estimates have not been reconciled to actual costs yet.[59] Internationally, remediation costs have often exceeded provisioning.[60] A 2021 study of North Sea projects found average actual decommissioning costs exceeded estimations by 76%.[61]

Company decommissioning provisions are calculated using information about assets (age, condition, complexity), and assumptions about removal requirements and future costs. These assumptions will differ across assets and will be informed by legislation (climate, environment, safety, taxation), regulatory settings, and commodity prices, among other factors.

Full removal of infrastructure is the regulatory base case in Australia. The National Offshore Petroleum Safety Environmental Management Authority (NOPSEMA) has questioned if operators are properly valuing offshore assets on this basis.[62] NOPSEMA plans to 'take action where companies are not making appropriate considerations'.[63]

Whilst CCS[64] and offshore wind[65] are viewed as opportunities to defer decommissioning liabilities for some assets, these are not guaranteed to be feasible or approved by regulators. Woodside should disclose whether such opportunities are influencing provisions, particularly for the BHP Petroleum assets in the Bass Strait. Australian Accounting Standards Board (AASB137)[66] guidance states that future events relating to technology can influence provisions "where there is sufficient, objective evidence they will occur".[67]

Shareholders would benefit from understanding Woodside's asset-specific provisions and assumptions to help assess under provisioning risks, particularly as the task of decommissioning draws nearer for many assets.

[58] "Offshore Petroleum (Laminaria and Corallina Decommissioning Cost Recovery Levy) Bill 2021 [and] Treasury Laws Amendment (Laminaria and Corallina Decommissioning Cost Recovery Levy) Bill 2021", Parliament of Australia, accessed 1 February 2022, link
[59] Centre of Decommissioning Australia, *A Baseline Assessment of Australia's Offshore Oil and Gas Decommissioning Liability* (NERA, 2022), link.
[60] Shaw, Paul F., and Paul F. Shaw. 2017. "Decommissioning and Remediation Challenges for the Petroleum Industry." The APPEA Journal 57 (2): 546–48. https://doi.org/10.1071/AJ16228.
[61] Tan, Yi, Hong Xian Li, Jack C. P. Cheng, Jun Wang, Boya Jiang, Yongze Song, and Xiangyu Wang. 2021. "Cost and Environmental Impact Estimation Methodology and Potential Impact Factors in Offshore Oil and Gas Platform Decommissioning: A Review." Environmental Impact Assessment Review 87 (March): 106536. link
[62] NOPSEMA advisory board, *NOPSEMA advisory board meeting minutes,* September 2020, 2, link
[63] ibid.
[64] Oil Search Limited, *Scheme Booklet,* (2021), 10, link
[65] Elouise Fowler, Offshore wind farms ready to harness fossil fuel workers, AFR, December 2021, link
[66] Provisions, Contingent Liabilities and Contingent Assets
[67] The Australian Accounting Standards Board (AASB), *AASB 137 Provisions, Contingent Liabilities and Contingent Assets,* sections 48-49, link

2. New legislation and enhanced regulatory oversight should be influencing provisions

Woodside's 2021 Annual Report states that its 'restoration obligations are based on compliance with the requirements of relevant regulations', and that these regulations 'are often non-prescriptive'.[68] In fact, operators now face increasingly stringent legislative requirements, particularly for offshore assets.

A raft of legislation and regulatory policies have been introduced over the last 18 months,[69] partly triggered by the widely-publicised Northern Endeavour case. For offshore assets, operators are newly burdened by: stricter decommissioning timelines;[70] stronger trailing liability provisions; increased oversight of company control; stricter financial assurance requirements; strengthened remedial directions powers; and, new transparency measures.[71] Many of these changes should have a bearing on Woodside's provisions.

NOPSEMA is increasingly issuing more directions, prohibition notices and improvement notices, and stressed its willingness to prosecute operators for decommissioning failures, including inadequate maintenance.[72] New regulatory timelines stipulate that from 2025, all structures, equipment and property must be completely removed within five years after production ceases.[73]

Woodside is currently facing multiple regulatory directions, issued by NOPSEMA under the *Offshore Petroleum and Greenhouse Gas Storage Act 2006*. Woodside has been directed to:

- Plug and abandon 18 wells and remove equipment by 2024, at the Nganhurra floating production storage and offloading (FPSO) unit, where production ceased in 2018.[74] The decommissioning strategy now appears uncertain since a proposal to turn a large piece of infrastructure into an artificial reef was withdrawn.[75]
- Plug and abandon 17 wells and remove all subsea equipment by 2025 at Stybarrow FPSO, where production ceased in 2015,[76] and publicly report progress annually until this has been achieved.

[68] Woodside, Annual Report 2021, 129, link
[69] https://www.nopsema.gov.au/offshore-industry/decommissioning
[70] NOPSEMA, *The Regulator - 2021 Issue 2, Ensuring Responsible Decommissioning,* link
[71] Offshore Petroleum and Greenhouse Gas Storage Amendment (Titles Administration and Other Measures) Bill 2021
[72] "Decommissioning compliance strategy 2021-2025", NOPSEMA (A763035), 2021, link
[73] "Decommissioning compliance strategy 2021-2025", NOPSEMA (A763035), 2021, link
[74] NOPSEMA, 'General Direction - section 574', issued 5.2.21 and still open at 17.3.21. link
[75] Peter Milne, 'Woodside abandons plan to dump derelict structure in Ningaloo and call it an artificial reef', WA Today, 7 October 2021. link
[76] NOPSEMA, 'General Direction', issued 30.8.21 and remains 'open'. link

In addition, NOPSEMA has issued two General Directions to BHP in 2021 for its Minerva gas field in Victoria (for completion 2025)[77] and the Griffin FPSO in WA (for completion 2024).[78]

To conclude, enhanced disclosures would provide shareholders with greater confidence that Woodside's decommissioning provisions do reflect recent regulatory and legislative changes.

3. Investors have had limited view of the assets due for decommissioning in the short and medium term

A key rationale for this resolution was the lack of investor visibility of the stage of life and condition of Woodside's wells and assets, to enhance their understanding of the decommissioning task ahead. For those assets regulated by the Commonwealth, some data on approved and proposed decommissioning works can be found on the NOPSEMA website.

For the first time, Woodside's April 2022 Merger Explanatory Memorandum provides a list of assets that are at or nearing end of life (by 2026), along with the likely timing and cost of decommissioning works. The memorandum also lists various factors that will influence when assets will require decommissioning post 2026, including field performance, commodity prices and regulatory requirements.[79]

Whilst further granularity is welcome, Woodside has demonstrated what is possible with this disclosure. However, since the list of assets due for decommissioning evolves every year, this disclosure cannot be viewed as a once-off exercise and should be updated and provided on an annual basis.

4. Increasing climate change transition risks

The oil and gas industry faces increasing pressure to decarbonise and plan for the energy transition.[80] These pressures are being reflected in reporting standards. A recent AASB Practice Statement advises that climate-related risk may cause an increase of provisions recognised for decommissioning due to regulatory changes or shortened project lives.[81] For this reason entities 'must disclose the major assumptions made about future events, which may need to include an explanation of how climate-related risk has been factored into the best estimate of the provision.'[82]

The Climate Action 100+ initiative developed a new Climate Accounting and Audit Indicator for the Net Zero Company Benchmark, requiring companies and auditors to ensure visibility of how accelerating Paris-aligned decarbonisation will impact companies' financial positions and profitability.[83]

Australian oil and gas companies intend to fund decommissioning works out of future cash flows. Therefore a key risk for companies in 1.5°C scenarios such as the IEANZE, is lower oil and gas prices due to lower demand, which decreases the cash available to fund the cost of decommissioning obligations. This problem would be exacerbated if decommissioning was brought forward due to insufficient demand. Such a scenario could affect the financial stability of the company and may partly explain Credit Suisse's view that "decommissioning is the biggest industry time bomb".[84]

Woodside states that its "Climate Report 2021 describes key climate-related risks and opportunities, including those relating to financial resilience testing of Woodside's portfolio"[85]. However, as ACCR has demonstrated in our analysis of Woodside's climate report, its free cash flow in the IEA net zero scenario is one third of that in the IEA STEPS scenario (2.6°C), which does not necessarily demonstrate resilience, particularly since debt costs are excluded from the analysis and regulators may well mandate complete removal of all offshore infrastructure. Woodside's scenario analysis must be enhanced to better enable investors to understand the company's possible vulnerabilities under the IEA Net Zero scenario, and how decommissioning may compound such vulnerabilities.

Conclusion

Within the April 2022 Merger Explanatory Memorandum, Woodside has recently demonstrated that preparing annual disclosures that are in part consistent with what this resolution seeks is entirely possible. Enhancements to the company's climate scenario analysis are also required.

Given the scale, cost, and technical and legal complexity of Woodside's current and upcoming decommissioning challenge, along with the impact that BHP Petroleum assets will likely have on liabilities, Woodside shareholders would significantly benefit from enhanced, annual disclosures on decommissioning.

ACCR urges shareholders to support this proposal.

[77] NOPSEMA, 'General Direction', issued 30.8.21 and remains 'open'. link
[78] NOPSEMA, 'General Direction', issued 30.8.21 and remains 'open'. link
[79] Woodside, Merger Explanatory Memorandum, April 2022, pg 71
[80] Deloitte Touche Tohmatsu for DISER, *2020 Review of activities of the National Offshore Petroleum Titles Administrator* (Canberra, 2020), 19, link
[81] AASB, *Climate-related and other emerging risks disclosures: assessing financial statement materiality using AASB/IASB - Practice Statement,* 2019, 5, link
[82] ibid.
[83] Climate Action 100+, *Global Investors Driving Business Transition,* 19-20, link
[84] Saul Kavonic (Credit Suisse), Our Investment Environment panel, 2021 APPEA Conference, 16 June, 2021
[85] Woodside, Notice of Annual General Meeting 2022, p23, link

3. Re-election of Ann Pickard

ACCR recommends voting against the re-election of Ann Pickard.

Ann Pickard is the Chair of the Sustainability Committee, and a member of the Human Resources & Compensation and the Nominations & Governance Committees.[86]

The Woodside board is currently made up of 11 members, including the CEO.[87] Of the 10 independent directors, of which three are women (30%). Half of the independent directors' primary industry experience is in the oil and gas industry (see Appendix).

Voting against the re-election of Ann Pickard is warranted for the following reasons:

- Ann Pickard is the Chair of the Sustainability Committee, which has direct oversight of Woodside's approach to climate risk.
- Woodside is planning to significantly increase production over the short- to medium-term, despite the IEA's 'Net zero by 2050' report concluding that no new coal, gas or oil developments could proceed beyond 2021, in order to limit global warming to 1.5°C.
- Despite nearly 50% of Woodside's shareholders supporting a resolution in 2020 that asked the company to set targets for all of its emissions, Woodside has failed to set a target on its Scope 3 emissions. In fact, Woodside is planning to significantly increase its Scope 3 emissions.
- Woodside continues to allocate substantial capital to oil and gas expansion—through the 2020s only 15% of capital allocation is targeted for non-fossil investment.[88]
- The Woodside board lacks "climate competence", with few, if any, directors having industry experience in sustainability, renewable energy, low or zero emissions technologies, or business transformation.
- Ann Pickard spent more than 25 years in the oil and gas industry with Royal Dutch Shell and Mobil, which raises doubts about her ability to question the merits of oil and gas expansion.

ACCR urges shareholders to vote against the re-election of Ann Pickard.

Disclaimer

The information in this report is for informational and educational purposes only and is not professional advice or recommendations (including financial, legal or other professional advice). It is your responsibility to obtain appropriate advice suitable to your particular circumstances from a qualified professional before acting or omitting to act based on any information obtained on or through the report.

The information contained in this report has been prepared based on material gathered through a detailed industry analysis and other sources and although the findings in this report are based on a qualitative study no warranty of completeness, accuracy or reliability of fact in relation to the statements and representations made by or the information and documentation provided by parties consulted as part of the process.

The sources of the information provided are indicated in the report and ACCR has not sought to independently verify these sources unless it has stated that it has done so. ACCR is not under any obligation in any circumstance to update this report in either oral or written form for events occurring after the report has been issued in its final form. The report is intended to provide an overview of the current state of the relevant industry or practice.

[86] Woodside, Leadership, website, link
[87] ibid.
[88] ACCR, Woodside Say on Climate briefing, link

Appendix: Woodside Petroleum Board

Name	Role	Appointed	Next re-election	Audit & Risk Committee	Human Resources & Compensation Committee	Nominations & Governance Committee	Sustainability Committee	Primary Industry Experience
Richard Goyder	Chair	Aug-2017	2021			Chair		Consumer goods, mining
Meg O'Neill	CEO	Apr-2021	-	-	-	-	-	Oil & gas
Larry Archibald	NED	Feb-2017	2023	Member	-	Member	Member	Oil & gas
Frank Cooper	NED	Feb-2013	**2022**	Chair	Member	Member	-	Tax
Swee Chen Goh	NED	Jan-2020	2023	-	Member	Member	Member	Oil & gas, consumer goods
Christopher Haynes	NED	Jun-2011	2021	Member	-	Member	Member	Oil & gas
Ian Macfarlane	NED	Nov-2016	2023	-	Member	Member	Member	Government
Anne Pickard	**NED**	**Feb-2016**	**2022**	**-**	**Member**	**Member**	**Chair**	**Oil & gas**
Sarah Ryan	NED	Dec-2012	**2022**	Member	-	Member	Member	Oil & gas
Gene Tilbrook	NED	Dec-2014	2021	Member	Chair	Member	-	Consumer goods, mining
Ben Wyatt	NED	Jun-2021	**2022**	-	Member	Member	Member	Government

Source: Woodside Petroleum Ltd