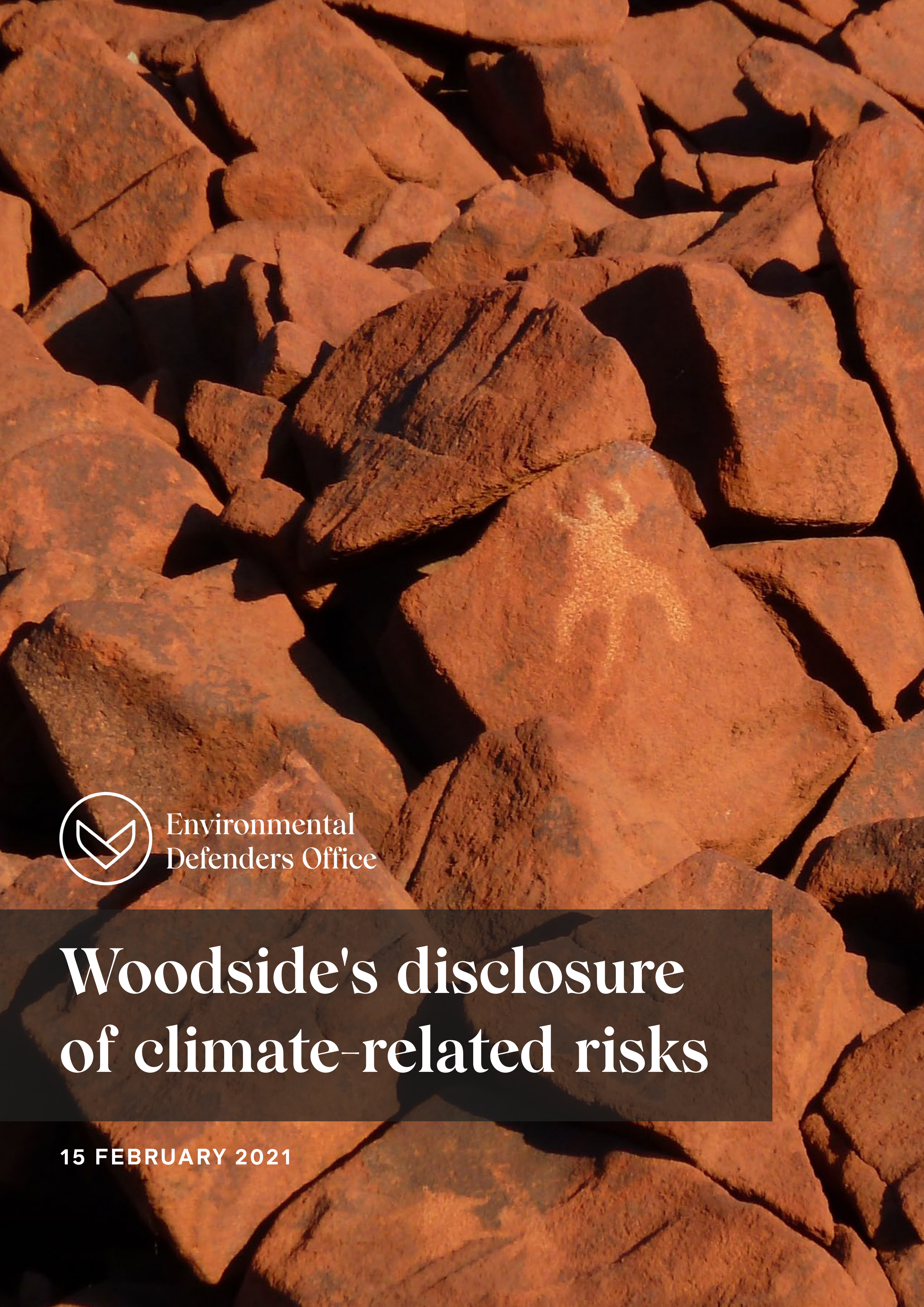


Environmental Defenders Office

Woodside's disclosure of climate-related risks

15 FEBRUARY 2021

Introduction

Disclosure of climate-related risks is critical to investors being able to assess the viability of their investment, and their financial and reputational exposure.

A lack of information leaves companies and investors – including superannuation funds – vulnerable to major losses. It skews the market unfairly in favour of companies that are ignoring risks, and unfairly away from companies that are acting responsibly. Further, by hiding opportunities for smart investment, it impedes an effective and timely response to climate change.[1]

In late 2020, the Conservation Council of Western Australia instructed us to provide a legal opinion on the extent to which Woodside Petroleum Ltd's (ACN 004 898 962) (**Woodside**) disclosure of its climate-related risks complies with the recommendations of the Task Force for Climate-related Financial Disclosures (**TCFD**), as well as disclosure requirements in the Corporations Act 2001 (Cth) (**Act**) and related guidance.[2]

This report is based on that legal opinion, which can be accessed here.

Summary of opinion

Woodside is exposed to a number of climate-related risks that, in our view, are not disclosed in accordance with the TCFD.

Expert evidence could be obtained to ascertain whether Woodside's climate-related disclosure is sufficient to comply with its disclosure obligations under the Act.

Woodside's climate-related risks include the risk its carbon-intensive projects become stranded assets as countries strive to achieve the Paris Agreement's goal of limiting global average temperature increase to 1.5°C or well below 2°C above pre industrial levels.[3] Gas production levels need to decrease annually by 3% between 2020 and 2030 in order to limit global temperature increase to 1.5°C,[4] or start declining around 2030 to be consistent with a 2°C pathway.[5] Existing global fossil fuel infrastructure is already more than sufficient to push the world past 1.5°C above pre industrial levels.[6] If the Paris

[1] Michael R. Bloomberg, 'The World Needs Biden to Lead on Climate Reporting', *Bloomberg Opinion* (14 December 2020) <https://www.bloomberg.com/opinion/articles/2020-12-14/the-world-needs-biden-to-lead-on-climate-disclosure>.
[2] Unless otherwise specified, references in this opinion to legislative provisions are references to provisions of the Act.
[3] *Paris Agreement* art 1(a) <https://unfccc.int/sites/default/files/english_paris_agreement.pdf>.
[4] Stockholm Environment Institute et al., *The Production Gap: The discrepancy between countries' planned fossil fuel production and global production levels consistent with limiting warming to 1.5°C or 2°C* (Report, December 2020) 12, 15-16.
[5] Stockholm Environment Institute et al., *The Production Gap: The discrepancy between countries' planned fossil fuel production and global production levels consistent with limiting warming to 1.5°C or 2°C* (Report, 2019) 17.
[6] Dan Tong et al., 'Committed Emissions from Existing Energy Infrastructure Jeopardize 1.5 °C Climate Target' (2019) 572 *Nature* 373.

Agreement aims were implemented, demand for gas in the power sector in Asia, a major source of demand for gas produced by Woodside, would likely peak around 2030 and decline close to zero between 2050 and 2060.[7] The World Economic Forum's Global Risks Report 2020 noted action to reduce emissions could turn approximately 50% of gas reserves into stranded assets.[8]

In particular, Woodside's "Burrup Hub" projects are prime candidates for becoming stranded assets during their expected lifetime (from 2025 to 2070[9]). They are projected to use increasingly carbon intensive gas resources, doubling the average greenhouse gas (**GHG**) intensity of gas from the North West Shelf plant from close to 0.4 to 0.7t CO2-e,[10] and if operational, would be Australia's largest GHG pollution source.[11] This makes them particularly vulnerable to carbon pricing mechanisms and growing market concern about the sustainability of GHG-intensive processes and products.

In our view, Woodside's disclosure of this risk is not specific and complete. We are only aware of Woodside addressing this risk in response to investor concerns during Woodside's Q2 2020 briefing. Woodside's CEO, Peter Coleman, stated the "Burrup Hub" remains "an attractive case"[12] and that the "pricing of carbon does not in a material way affect the economics of the [Burrup Hub] projects".[13]

The TCFD was established by the Financial Stability Board (**FSB**) in 2015. The FSB is an international body that monitors and makes recommendations about the global financial system. The TCFD was established to "develop recommendations for more effective climate-related disclosures that could promote more informed investment, credit, and insurance underwriting decisions."[14] To achieve this, the TCFD advances a framework for "consistent climate-related financial disclosures that would be useful to investors, lenders, and insurance underwriters in understanding material risks".[15]

In our view, Woodside's climate-related disclosure does not comply with 3 of the 11 disclosures recommended by the TFCD.

Expert evidence could be obtained regarding the materiality of Woodside's climate-related risks, which would inform further consideration as to whether Woodside's climate-related disclosure is sufficient to comply with the disclosure requirements of the Act.

Woodside has foreshadowed that its 2020 Annual Report and related financial reporting will contain further disclosure of its climate-related risks in accordance with the TCFD.[16] These financial reports are scheduled to be released on 18 February 2021.[17]

[7] Climate Analytics, *Impact of Burrup Hub for Western Australia's Paris Agreement Carbon Budget* (Report, February 2020) 15.
[8] World Economic Forum, *The Global Risks Report 2020* (Report, January 2020) 32.
[9] 'North West Shelf Project Extension', *Woodside* (Web Page, 14 September 2020) <https://www.woodside.com.au/our-business/burrup-hub/north-west-shelf-project-extension>.
[10] Climate Analytics, *Impact of Burrup Hub for Western Australia's Paris Agreement Carbon Budget* (Report, February 2020) 3.
[11] Urgewald, *Five Years Lost: How Finance is Blowing the Paris Carbon Budget* (Report, December 2020) 54.
[12] Woodside, 'Q2 2020 Briefing Transcript and Additional Information' (ASX Announcement, July 2020) 3.
[13] *2020 Annual General Meeting* (Woodside, 2020) 1:23:10.
[14] 'About the TCFD', *TCFD* (Web Page, 8 February 2021) <https://www.fsb-tcfd.org/about/>.
[15] TCFD, *Final Report: Recommendation of the Task Force on Climate-related Financial Disclosures* (Report, June 2017) 14.
[16] Woodside, *Climate Change Risk Management: Next Steps* (Report, April 2020).
[17] 'Investors: Upcoming Events', *Woodside* (Web Page) <https://www.woodside.com.au/investors>.

About the TCFD

In June 2017, the TCFD advanced a framework for "consistent climate-related financial disclosures that would be useful to investors, lenders, and insurance underwriters in understanding material risks".[18] Reporting in accordance with the TCFD framework is mandatory for signatories to the Principles for Responsible Investment (**PRI**). PRI signatories comprise investors with over $80 trillion in funds under management.[19]

While the TCFD recommendations are voluntary and not legally binding on Australian companies, Australian financial regulators have all strongly signalled they will be monitoring companies' management of climate-related risk and have referred to the TCFD recommendations as a preferred disclosure framework.[20]

Indeed, Mark McVeigh's recent case against REST Super was partly premised on the claim that REST had failed to disclose its climate-related risks in accordance with the TCFD. Because the case was settled, the Federal Court did not have the opportunity to provide a ruling clarifying the legal status of the TCFD in Australia. The result nonetheless has important implications for Australian companies' climate-related disclosure. REST committed to disclosing its climate-risks in accordance with the TCFD and encouraging its investee companies to follow suit.[21] This reflects a growing consensus in the legal and business community that Australian companies should be identifying, disclosing and managing their climate-related risks, and that those who fail to do so risk falling short of their legal obligations.

[18] TCFD, *Final Report: Recommendation of the Task Force on Climate-related Financial Disclosures* (Report, June 2017) 14.
[19] 'TCFD-based reporting to become mandatory for PRI signatories in 2020', *Principles for Responsible Investment* (Web Page, 18 February 2019) <https://www.unpri.org/news-and-press/tcfd-based-reporting-to-become-mandatory-for-pri-signatories-in-2020/4116.article>.
[20] ASIC, *Report 593: Climate risk disclosure by Australia's listed companies* (September 2018); ASX Corporate Governance Council, *Corporate Governance Principles and Recommendations* (Fourth Edition, February 2019) 27-28; AASB, *Climate-related and other emerging risks disclosures: assessing financial statement materiality using AASB Practice Statement 2* (December 2018); Reserve Bank Deputy Governor Guy Debelle, 'Climate Change and the Economy' (Speech, Centre for Policy Development, Sydney, 12 March 2019); ASIC Commissioner John Price, 'Climate change' (Speech, Centre for Policy Development, Sydney, 18 June 2018); APRA Executive Board Member Geoff Summerhayes, 'Australia's new horizon: Climate change challenges and prudential risk' (Speech, Insurance Council of Australia, Sydney, 17 February 2017).
[21] REST, *Statement from Rest* (Media Release, 2 November 2020).

Woodside's climate-related risks

Like most, if not all, Australian companies, Woodside is exposed to both the physical and transition impacts of climate change.

Transition impacts

Australia and most nation states aim to strengthen the global response to the threat of climate change by, amongst other things, holding the increase in global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels. Those aims have caused, and will increasingly continue to cause, what are known as transition impacts. That is, changes to Australian and international policy, laws, legal actions, markets, technology and customer or community perceptions towards companies and investors.

As detailed above, Woodside's climate-related risks include the risk its carbon-intensive gas projects could become stranded assets due to transition impacts, and the impact this would have on Woodside's business.

The likelihood of this risk eventuating is demonstrated by China recently announcing its target of carbon neutrality by 2060.[22] The impact the target will have on China's demand for imported gas is unclear given the announcement's ambiguity. Nonetheless, analysts predict gas use in China will increase over the next ten years, before decreasing as China effectively goes "ex-growth".[23] Any decrease in demand will have a notable impact on Australian gas exporters, who are the main supplier of liquified natural gas (**LNG**) to China.[24]

Physical impacts

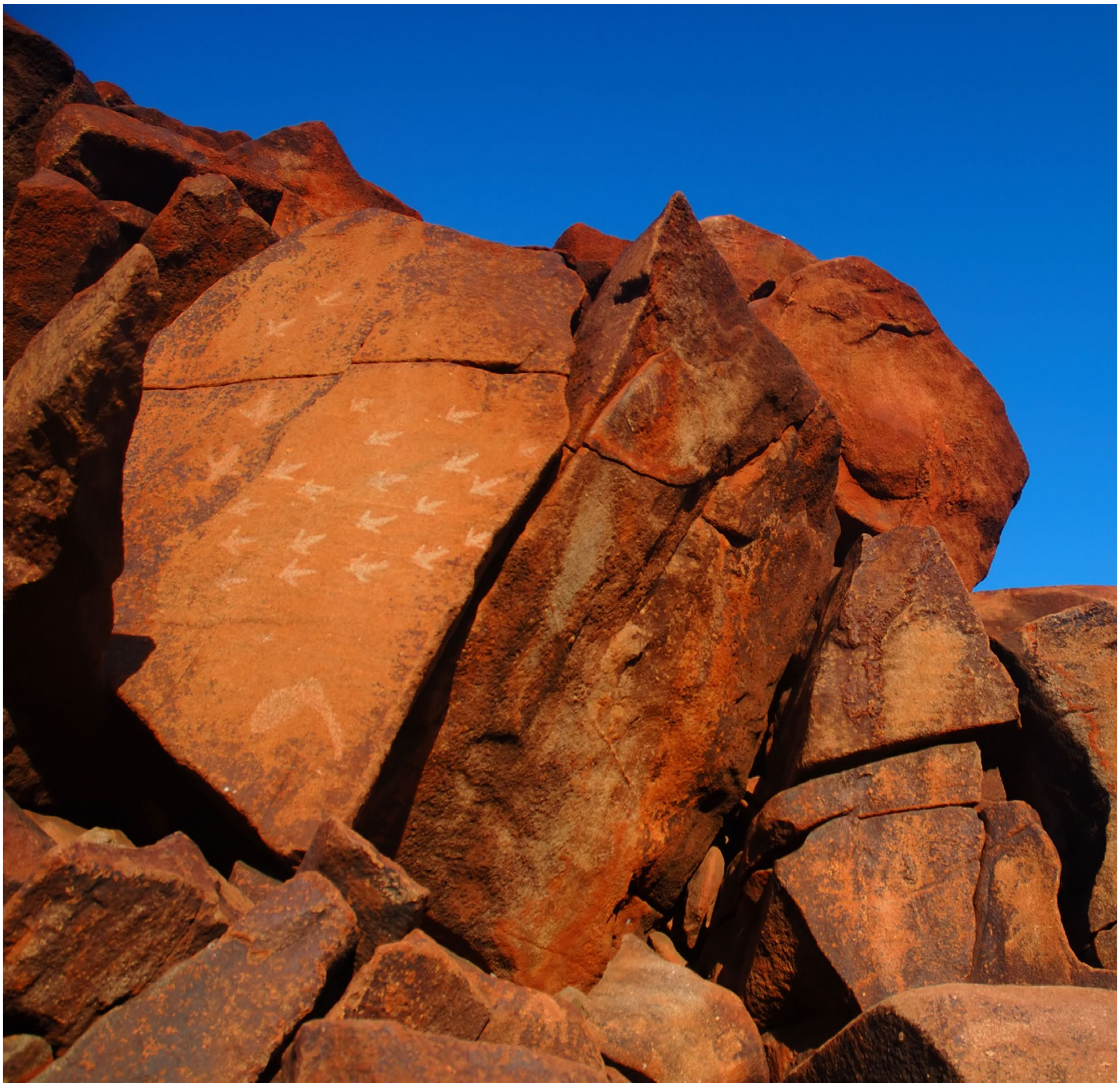
Physical impacts include higher mean and maximum temperatures; higher minimum temperatures; decreases in precipitation; increases in the severity of droughts; increases in the intensity of rainfall; increases in the intensity of cyclones and storms; and increases in the mean sea level.

Woodside's climate-related risks resulting from physical impacts include Woodside's LNG export facilities being located adjacent to the

[22] Xi Jinping, 'Address to Summit on Biodiversity' (Speech, United Nations, September 2020).
[23] Angela Macdonald-Smith, 'China's net-zero goal to send coal, oil demand diving', *Australian Financial Review* (online, 25 September 2020) <https://www.afr.com/companies/energy/china-s-net-zero-goal-to-send-coal-oil-demand-diving-20200924-p55yxf>.
[24] Henning Gloystein and Jessica Jaganathan, 'Having a gas: Australia dominates China's LNG supply', *Reuters* (online, 14 June 2019) <https://www.reuters.com/article/us-australia-china-lng-idUSKCN1TF0GV>.

coast where they are vulnerable to storm surges and sea level rise.[25] LNG also requires chilling to less than minus 160°C to liquify it for efficient transport, which becomes more costly at higher temperatures.[26]

The likelihood of Woodside's climate-related risks resulting from physical impacts eventuating is not insignificant. 2020 was the first year the World Economic Forum concluded the top 5 global risks in terms of likelihood were all environmental, including extreme weather (such as drought) and natural disasters.[27]



[25] Dr Michael H Smith, *Assessing Climate Change Risks and Opportunities for Investors: Oil and Gas Sector* (Report, July 2016) 2.
[26] Dr Michael H Smith, *Assessing Climate Change Risks and Opportunities for Investors: Oil and Gas Sector* (Report, July 2016) 2.
[27] World Economic Forum, *The Global Risks Report 2020* (Report, January 2020) Figure 1.

Woodside's compliance with TCFD recommendations

In our view, Woodside's climate-related disclosure does not comply with 3 of the 11 disclosures recommended by the TCFD. The relevant disclosures fall within the TCFD's strategy limb, which provides as follows:

> *Strategy: Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.*
>
> 1. *Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.*
>
> 2. *Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.*
>
> 3. *Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.*

We consider Woodside's disclosure insufficient to comply with the strategy limb because:

a. It fails to describe Woodside's climate-related risks in a specific and comprehensive manner. For example, TCFD's guidance is that organisations should provide "a description of the specific climate-related issues for each time horizon (short, medium, and long term) that could have a material financial impact on the organization".[28] Woodside's vague reference to the "physical impacts of climate change"[29] does not specify the physical impacts that could have a material financial impact on Woodside, such as those identified above.

b. Contrary to the TCFD's guidance,[30] it fails to differentiate Woodside's climate-related risks for each time horizon (short, medium, and long term).

c. It fails to identify the potential impacts of Woodside's climate-related risks on its business, strategy and financial planning in a specific and comprehensive manner. For example:

    i. Woodside discloses the impacts of carbon, gas and oil (which many of Woodside's gas contracts are pinned to) price changes on its cash flow in a vague manner, if at all. For example, Woodside's statement that "global climate change policy" will potentially "constrain Woodside's ability to create and deliver stakeholder value"[31] can be contrasted with Shell's disclosure that a $10 per barrel change in oil prices would have an approximately $6 billion impact per year on its cash flow from operations, and a $10 per tonne increase

[28] TCFD, *Final Report: Recommendation of the Task Force on Climate-related Financial Disclosures* (Report, June 2017) 10, 20.
[29] Woodside, *2019 Sustainable Development Report* (Report, February 2020) 26.
[30] TCFD, *Final Report: Recommendation of the Task Force on Climate-related Financial Disclosures* (Report, June 2017) 20.
[31] Woodside, *2019 Annual Report* (Report, February 2020) 39.

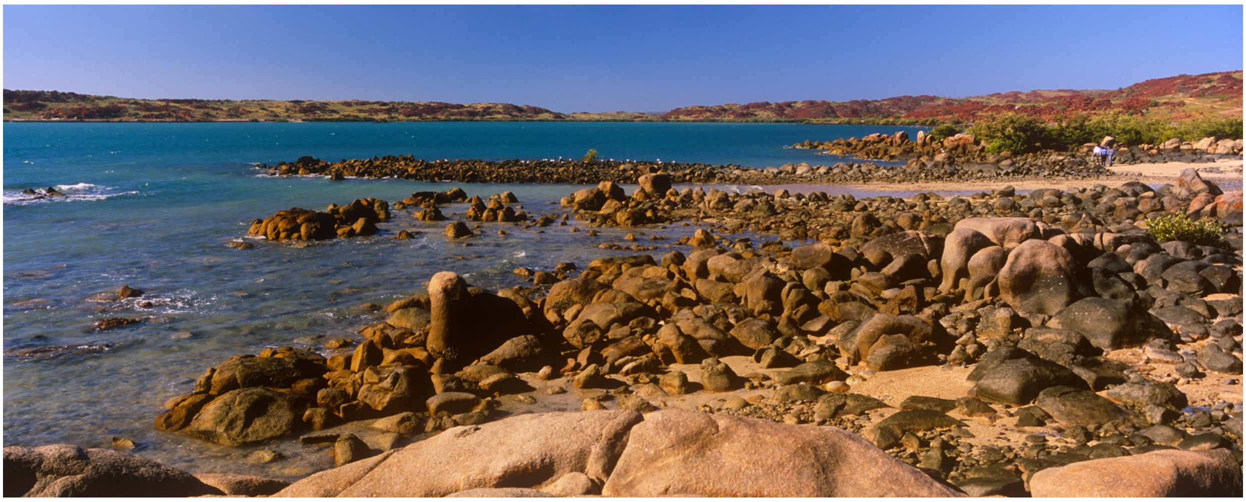
in carbon prices would result in a reduction of about $1 billion in its pre-tax cash flows;[32]

ii. Woodside's disclosure of the extent to which transition impacts such as carbon pricing may result in its assets, including the "Burrup Hub" projects, becoming stranded (see above) is not specific and complete. Where companies identify policy changes as one of their climate-related risks, as Woodside has, the TCFD provides, as examples of potential financial impacts, write-offs, asset impairment, and the early retirement of existing assets.[33] These examples are provided to assist companies identify climate-related impacts. In response to investor concerns regarding stranded asset risks, CEO Peter Coleman responded in a general manner stating the "Burrup Hub" remains "an attractive case"[34] and that the "pricing of carbon does not in a material way affect the economics of the [Burrup Hub] projects";[35] and

iii. Woodside does not disclose the extent to which physical impacts could impact its production forecasts (see above). The TCFD identifies increased operating costs due to inadequate water supply for fossil fuel plants as one of the potential financial impacts that companies should consider if changes in precipitation patterns are one of their business risks.[36]

d. It fails to describe the resilience of its strategic response to different climate-related scenarios in a specific and comprehensive manner, and is not comparable with the scenario analysis undertaken by other oil and gas companies in their Australian financial reporting, such as BHP and Rio Tinto.[37]

We note Woodside has foreshadowed that its 2020 Annual Report and related financial reporting will contain further disclosure of its climate-related risks in accordance with the TCFD.[38] These financial reports are scheduled to be released on 18 February 2021.[39]

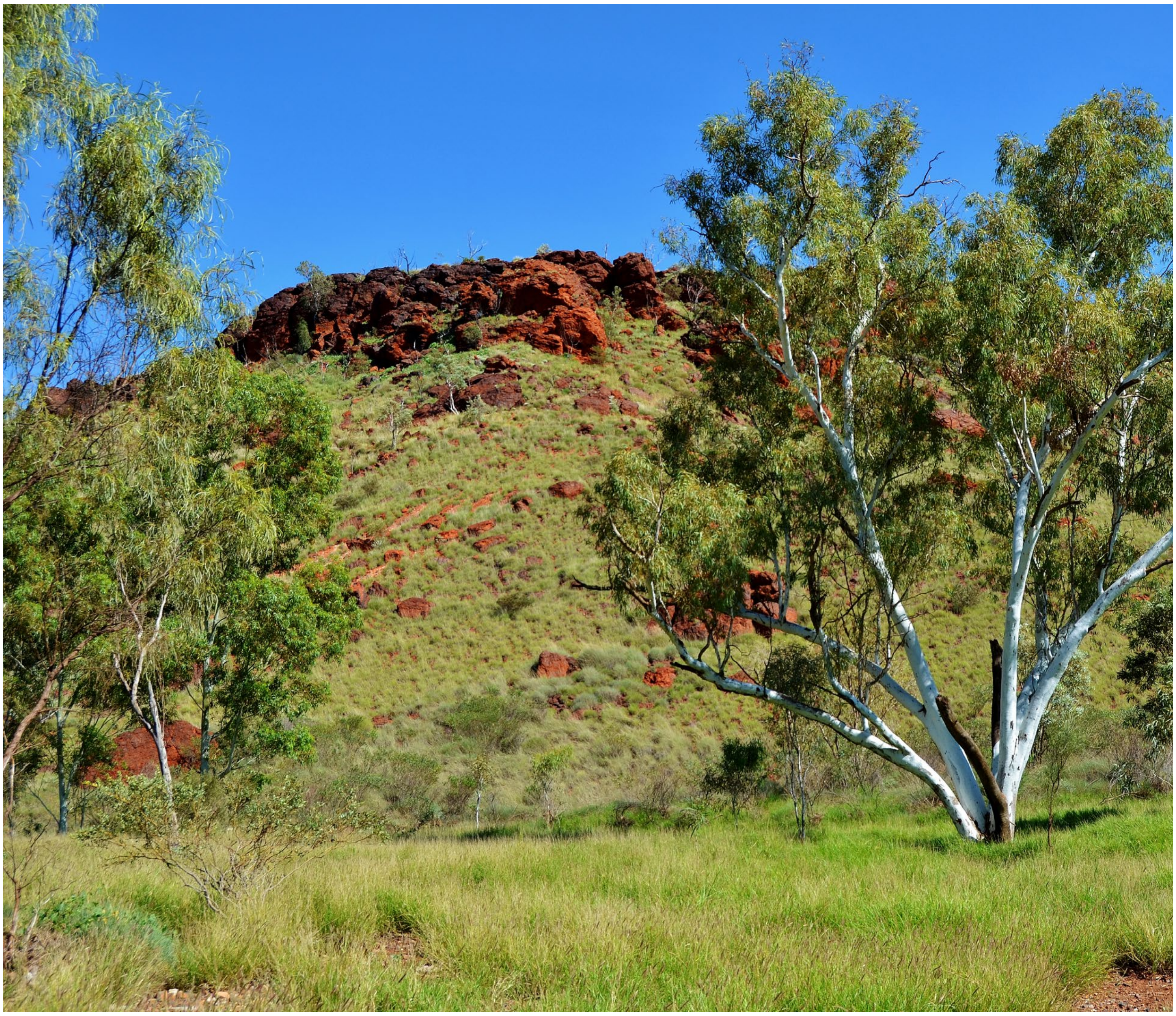


[32] Shell, *Energy Transition Report* (Report) 36.
[33] TCFD, *Final Report: Recommendation of the Task Force on Climate-related Financial Disclosures* (Report, June 2017) 10.
[34] Woodside, 'Q2 2020 Briefing Transcript and Additional Information' (ASX Announcement, July 2020) 3.
[35] *2020 Annual General Meeting* (Woodside, 2020) 1:23:10.
[36] TCFD, *Final Report: Recommendation of the Task Force on Climate-related Financial Disclosures* (Report, June 2017) 10.
[37] See BHP Billiton Ltd, *2020 Annual Report* (Report, February 2020) 38-39, 65-68; BHP Billiton Ltd, *2020 Climate Change Report* (Report, September 2020) 12-21, 36-39; Rio Tinto Ltd, *Our approach to climate change 2019* (Report, 2019) 6-9.
[38] Woodside, *Climate Change Risk Management: Next Steps* (Report, April 2020).
[39] 'Investors: Upcoming Events', *Woodside* (Web Page) <https://www.woodside.com.au/investors>.

Woodside's compliance with Australian law

As a public company,[40] Woodside is required to prepare a financial report and a directors' report for each financial year,[41] which must comply with the disclosure obligations in Part 2M.3 of the Act.

Whether Woodside's climate-related disclosure complies with the obligations of the Act largely hinges on the materiality of Woodside's climate-related risks. In our view, information such as that presented above suggests there is a possibility that Woodside's climate-related risks could result in an adjustment to the carrying amounts of its assets and liabilities. However, expert evidence would be required to conclusively determine this question.



[40] Act s 9 (definition "public company").
[41] Act s 292(1)(b).