bp Australia Pty Ltd
A.B.N. 53 004 085 616
717 Bourke Street
Docklands, Victoria 3008
Australia

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bp Australia pre-budget submission

bp Australia welcomes the opportunity to provide our views on priorities for the 2024-25 federal budget.

In framing our input, focused on the opportunities Australia's energy transition presents to the economy, we've considered the government's existing programs & policy frameworks, current commitments, and the announced tests in relation to Net Zero industry policy, namely:

- Whether Australia can be competitive in the industry, by leveraging and building up our comparative advantages.
- Whether it contributes to an efficient and orderly pathway to net zero.
- Whether it builds the capabilities and resilience of people and regions.
- Whether it improves Australia's national security and economic resilience and supports the strategic objectives of our global partners.

bp Australia's 5 key recommendations

1. Cultivate an Australian renewable fuels industry to reap the decarbonisation, energy security, and regional development benefits.
2. Build momentum, scale, and broaden use-cases for Australian green hydrogen by signaling and scoping a *Hydrogen Headstart Wave II*.
3. Accelerate regional EV infrastructure by introducing a targeted grant program.
4. Enable the Future Gas Strategy
5. Nurture industry-related opportunities from the energy transition.

About bp

bp's purpose is to reimagine energy for people and our planet. Our ambition is to become a net zero company by 2050 or sooner; and to help the world get there too. Globally, bp aims to be net zero across our operations (scope 1 & 2), in our oil and gas production (scope 3) and in the energy products we sell (life-cycle emissions intensity). For each of these we have also set short-term (2025) and medium-term targets (2030). You can read more about our net zero plans and progress in our 2023 Net zero ambition report.

Globally, our strategy is to transition from an international oil company to an integrated energy company. That transition is underway – between 2019 and 2022 the share of our annual capital investment going into what we call out transition growth engines (bioenergy, convenience, EV charging, renewables and power, and hydrogen) grew from 3% to 30% We also continue to invest in oil and gas – investing in meeting the needs of today's energy system alongside investing to help scale lower carbon alternatives. We believe that the global energy transition needs to be not just rapid enough to meet the Paris climate goals, but also orderly. We aim to:

- Reduce our oil and gas production by 25-30% (from 2019 levels) by 2030 and lower emissions while keeping up cash flow by high grading our hydrocarbon portfolio and growing bioenergy.
- Invest in low-carbon energy to rapidly scale up in solar and offshore wind and develop new opportunities in carbon capture and clean hydrogen.
- Install 100,000 EV charging points and opening more than 1,000 new strategic convenience sites worldwide.
- Progress five transition growth businesses: bioenergy, convenience, EV charging, renewables, and hydrogen by 2025.

In addition, bp owns 50% of Lightsource bp, an independently operated global business. In November 2023, bp agreed to take full ownership by acquiring the remaining 50.03% interest. Subject to regulatory approvals, the transaction is anticipated to be completed by mid-2024.

About bp Australia

All elements of bp's global strategy are present in Australia.

- We've substantial gas interests in Western Australia as a foundation partner of the Woodside-operated Northwest Shelf Joint Venture (JV) and are developing the Browse

project with our JV partners. We're working on ways to decarbonise these operations to provide domestic and export natural gas.

- We're working with partners exploring the possibility of a Carbon Capture and Storage (CCS) hub, Angel, off the coast of Western Australia.
- We've assumed operatorship of the Australian Renewable Energy Hub (AREH) in the Pilbara, planned to provide green electrons and green hydrogen to help decarbonise local customers and to provide hydrogen for export.
- We're transitioning our Kwinana refinery site into an integrated clean energy hub:
    - We're in front-end engineering design (FEED) on the Kwinana Renewable Fuels project to produce up to 10,000 barrels per day of sustainable aviation fuel (SAF) or renewable diesel (RD); and
    - We're exploring hydrogen production as part of our H2Kwinana project – a recipient of a hydrogen hub grant and short listed for the Hydrogen Headstart program.
- We are working on a further hydrogen project – GERI at Oakajee in the Mid-west.
- A significant renewable generation portfolio in Australia through Lightsource bp.
- And alongside an established retail-convenience and B2B fuels business, we're rolling out electric vehicle charge points through our bp pulse brand, and exploring options with partners to decarbonise heavy transport, including hydrogen refueling.

Opportunities for Australia in the energy transition

Australia's position in the energy transition is unique and represents an opportunity to use our abundant natural resources in solar and wind, to value-add to increasingly important commodities that a carbon-constrained world needs – critical minerals, 'green steel' and exports of lower-carbon energy. All accelerated by policy settings that enable Australian industry to supply low-emissions products here and to the rest of the world.

Domestically, the energy transition is an opportunity to increase investment and production in industries that will create employment and national income.

For instance, the push to green steel production and critical minerals processing is welcomed. Using renewable energy to produce renewable hydrogen and leveraging Australia's abundance in iron ore and bauxite to become a leading producer of green iron and steel will create economic growth and the local industrial depth for Australia to be at the forefront of the energy transition.

Australia's opportunities in the energy transition are also at a scale to impact the decarbonisation ambitions across the region, and beyond. Many nations have limited renewable energy resources and are looking to us to supply their energy needs.

Recommendation 1 – Cultivate a renewable fuel industry

We see a significant role for renewable fuels to reduce Australia's transport emissions – both in long-term, difficult to abate sectors (like aviation and marine), and in sectors where the transition to electrification will take time, even with the welcome aggressive penetration of EVs to new vehicle sales. Supplied using existing infrastructure, renewable fuels are available today and can be used in today's vehicle fleet.

Beyond decarbonisation benefits, an Australian renewable fuels industry can deliver broader economic benefits aligned to the government's priorities:

Delivering regional & rural benefits – farmers currently leverage Australia's comparative advantage in agriculture to grow and export feedstock (such as canola) to overseas markets. A domestic renewable fuels industry will provide domestic demand for these feedstocks and, with the right policy settings, can drive agribusiness sustainability (including decarbonising Australia's agriculture sector) and present value-adding opportunities such as feedstock processing.

Enhancing fuels security – a sovereign production capacity supplied by a domestically grown slate of flexible feedstocks offers immense opportunity to strengthen Australia's liquid fuels security. Flexibility across the feedstock supply chain underpins this strength - be it geographically across varying agricultural regions, a broad range of crop-types, or the adoption of multiple production pathways.

Central to growing a domestic production capability is establishing demand & supply levers.

- For demand – regulated demand linked to carbon intensity is essential. The design of such a policy would need further consultation, including on timing (but should commence before 2030), scope (whether to cover all liquid fuel uses, or specific uses like aviation), and ambition (a reflection of transport's contribution to Australia's NDC). In addition, we recommend the government executes technical amendments to NGERs accounting arrangements to ensure existing demand-based incentives under the Safeguard

Mechanism can be accessed. Lastly, focused government procurement practices would provide confidence and support investment.

- For supply - ongoing development grants to enable new projects coupled with contracts for difference (CfD) for commercial-scale projects where the government underwrites the development of a SAF market by bridging part of the green premium. To improve the availability and productivity of Australia's feedstock industry, the government can provide funding for research and development, grants and concessional loans.
- To enable both demand and supply - establish an Australian sustainability standard and certification system for decarbonized liquid fuels.

As an established fuels supplier in Australia – we also believe amending *The Fuel Security Act 2021* and associated legislation to incorporate biorefineries with the following two provisions to assist the government attain its goals:

- Extend Australia's existing *Fuels Security Services Payment* beyond 2027 – and incorporate the production of renewable fuels into the eligibility criteria; and
- Allow renewable fuels feedstock to contribute to obligated party *Minimum Stockholding Obligations* (MSO), consistent with the existing treatment for crude oil feedstock.

Recommendation 2 – Signal & scope *Hydrogen Headstart Wave II*

Announced in the 2023-24 budget, the $2 billion Hydrogen Headstart Program represents Australia's strongest commitment to nurturing a green hydrogen industry. By providing revenue support to close the gap between the current cost of production and a customer's ability to pay recognises the need to underpin significant investments in the early stages of a market forming.

bp's H2Kwinana is one of the six shortlisted projects for the program which cover a range of production capacities and end use-cases including Ammonia, Sustainable Aviation Fuel, mobility, e-fuels, and critical minerals processing.

From our experiences progressing hydrogen projects in Australia and globally, we believe a subsequent wave of the program will be required to unblock Australia's green hydrogen pipeline. It would build momentum off the first wave of projects, broaden the use cases, provide scale to underpin an Australian supply chain, and enable existing industries post-2030 decarbonisation needs to be met as well as future industries to emerge, such as green steel manufacturing and critical mineral refining. Doing so will assist Australia support our region's

energy transition by supplying reliable, secure - and increasingly - decarbonised energy to our regional partners and beyond.

Through the Headstart application process, the government has received a comprehensive view of Australia's hydrogen pipeline and can make an informed judgment on readiness for the pipeline to progress. We think the pipeline justifies scoping of future rounds and clearly articulating this would provide the certainty required for continued investment in significant pre-FEED and FEED stages. It would also be an important signal to our trading partners.

Australia's reputation as a trusted exporter of energy should be no different in the decades to come than in decades past. We encourage the government to continue partnering with governments in export markets to align funding programs and develop end-to-end supply chains for Australia's low carbon hydrogen, included but not limited to working with the German and Japanese governments that have made funding commitments. We've regularly encouraged design of point-to-point policy initiatives and/or co-contribution of funding to existing support mechanisms that can be tailored to Australian proponents.

Recommendation 3 – a competitive process for grants to accelerate regional EV infrastructure.

As one of the largest providers of public fast-EV-charging infrastructure in Australia (and other global markets), bp welcomed the government's national EV strategy published in April 2023, among other EV policy initiatives.

To continue improving the availability and accessibility of fast-charging EV infrastructure, especially in regional locations at peak seasonal times (i.e. summer holidays in coastal towns), we recommend ongoing EV infrastructure grants in regional locations.

Prioritising funding in this manner supports a more comprehensive build-out of charging infrastructure. It ensures regional tourism may prosper and city-based motorists (the largest group of early EV adopters) are reassured of destination-charging options.

Recommendation 4 – Enable Australia's future gas strategy.

bp welcomes recent efforts to recognise the role of gas in the energy transition, recognising that *today's* governments and customers of gas – are *tomorrow's* governments and customers of low carbon energy. We recommend the government fully fund the next steps of this strategy.

Relatedly, we encourage the government to continue to work with industry to complete the design, then implement PRRT reforms to provide investment certainty.

Recommendation 5 – Industry in the energy transition

We support the government's plans to recast and modernise Australia's industry policy to leverage our strengths through the energy transition. It makes sense to focus Australia's net-zero industry policy on areas of comparative advantage and work with the private sector to focus on interventions that will shift the dial on investment decisions.

We support the government's initial priorities:

- Unlocking Australia's abundant renewable energy resources to provide cheap and reliable energy across the economy.
- Refining and processing critical minerals.
- Supporting manufacturing of generation and storage technologies, including batteries.
- Producing renewable hydrogen and its derivatives like ammonia, and
- Forging green metals.

As discussed, we see great potential for a domestic renewable fuels industry and recommend this is added as an immediate priority for Australia's net-zero industry policy.

We congratulate the government on the investment's already made in support of Australia's energy transition. These investments have had a material difference in the investment environment in some parts of the economy but are not yet sufficient to truly realise Australia's 'green energy superpower' ambition. We join other voices calling for more public capital into industries that will help Australia release this ambition.

We encourage the government to consider a range of different funding structures and incentives in forming its industry policy:

- We see a role for concessional finance such as that offered by the Clean Energy Finance Corporation and the National Reconstruction Fund. We encourage coordination between these different streams to maximize impact.
- We note concessional finance will not always be the solution and encourage continued development of production-based funding mechanisms where warranted, like those being deployed under the Capacity Investment Scheme and Hydrogen Headstart programme.
- We see an ongoing role for development and capital grants provided by ARENA.

Australia's net-zero industry policy should also consider how the tax system can be used to attract investment and bring those investments to fruition. Tax incentives can come at various points across the value chain in the form of accelerated depreciation or capital allowances, and indirect tax exemptions. Experience shows tax investments can make capital investments more attractive and help overcome financing impediments, making otherwise unprofitable projects investible. Accelerated depreciation or capital allowance regimes are attractive, allowing investors to recover large upfront capital costs more quickly and benefits free cash flow. This gives businesses with longer investment cycles the opportunity to benefit and provides those investing in the biggest capital projects certainty. Indirect tax exemptions may improve project economics by lowering costs for both construction/production inputs, maintenance items and commodity outputs.

The government's green economy priorities are interconnected and mutually reinforcing. For example, Australia's endowment of critical minerals and iron ore matched with our capabilities, sets the stage for success processing these critical minerals and forging green metals.

But to be compatible with Australia's emissions reduction targets and the expectations of consumers: the mining, refining and processing of our critical minerals and iron ore into green metals will need to be done in an increasingly decarbonized way. This will require a full range of decarbonized energy solutions: increased renewable electricity and enhanced transmission infrastructure; renewable fuels to power the machinery and vehicles, and decarbonized hydrogen in the processing processes. Australia's industry policy will need to reflect and support this ecosystem across the low carbon economy.

Conclusion

The 2024 budget represents an opportunity to further leverage Australia's strengths in the energy transition. With the right policy settings, companies like bp are poised to make an Australian 'green energy superpower' a reality – bringing the skilled jobs and economic diversification, and regional opportunities.

We welcome further engagement with you to discuss these recommendations in further detail.