Santos

Santos Ltd
ABN 80 007 550 923

Santos
60 Flinders Street
Adelaide, SA 5000

GPO Box 2455
Adelaide, SA 5001

+61 8 8116 5000

santos.com

15 September 2025

Productivity Commission
Canberra, ACT, 2601

Dear Sir/Madam,

Interim Report on Net Zero Transformation

Santos appreciates the opportunity to provide comments on the Productivity Commission's Interim Report on Net Zero Transformation.

Santos supports policy approaches that are effective, economically efficient, and equitable. Climate policy must be designed and implemented in a manner that supports energy security and affordability as well as economic growth and productivity in Australia, and indeed regional security in the Asia Pacific. Natural gas is critical to reaching net zero in Australia, supporting the transition away from coal, and powering industries critical to reducing emissions such as critical minerals production.

The Future Gas Strategy (FGS) states clearly that "Under all credible net zero scenarios, natural gas is needed through to 2050 and beyond." Net Zero will be impossible without carbon capture and storage (CCS) to manage emissions from existing facilities, hard-to-abate industry, and as a scalable CO2 removal option. The IPCC and the IEA agree that CCS is one of the most important low-carbon technologies required to achieve society's climate goals at the lowest cost. The IPCC's sixth assessment report assessed that CCS must be part of any future net-zero CO2 energy system as a "critical mitigation option." Yet Natural Gas and CCS are largely excluded from Australia's current climate and energy policies.

A failure to acknowledge the role of natural gas and the complementary services of CCS in the transition to Net Zero will make maintaining energy security, growing productivity, and indeed reaching net zero more difficult and more expensive. We observe some incongruity between the comment that *"gas use will need to be minimised over time to meet net zero"* with the recommendations to apply incentives for emissions reduction without discrimination between technologies. The Draft Report exposes the impropriety of distortionary subsidies in the energy market such as the Renewable Energy Target (RET) and the Capacity Investment Scheme (CIS) and correctly concludes that as Government contemplates incentives beyond 2030 that *"Emitters should get the same benefit from reducing emissions regardless of how they do it."*

We agree that *"All emitters with lower cost options to reduce emissions should be incentivised to act, irrespective of their sector and incentives that are broader-based will make this as smooth as possible."* A good place to start would be to provide incentives which properly recognise the role of Carbon Capture and Storage in delivering tangible reductions in carbon emissions.

National policies need to be designed to be technology neutral to provide enduring, market-determined signals to guide investment decisions and deliver least-cost emissions reduction. Santos would urge the Productivity Commission to advise government of the need to:

1. Recognise the critical role of gas and CCS in energy and climate policies. Ensure policy coherence and consistency by explicitly recognising natural gas, alongside CCS and low-carbon fuels as indispensable pillars of Australia's decarbonisation policy architecture.
2. Consider a range of pathways for emissions reductions across the economy, not just in power generation. A whole-of-economy approach is critical, extending beyond the electricity sector to encompass all sectors and including the use of high-integrity Australian and international offsets to help smooth the transition and to address residual emissions.
3. Embed Australia's climate policy within a broader framework of energy reliability, security, affordability and economic productivity outcomes. Natural gas is an essential enabler of energy security (flexible, dispatchable, and lower-carbon energy source), especially during periods of renewable intermittency and as an industrial heat and feedstock.
4. Ensure the Safeguard Mechanism (SGM) remains fit-for-purpose and supports the global competitiveness of Australian industries by facilitating least-cost abatement.

In the Appendix to this letter, we have provided responses to Recommendations of the Draft Report. We thank you for the opportunity to respond and would be happy to address any of the points raised here in more detail.

Please contact me on [redacted] if you wish to discuss our submission further.

Yours sincerely

[redacted]

Alice Trethewey
Head of Government Affairs

Santos

APPENDIX
RESPONSE TO RECOMMENDATIONS

Draft Recommendation	Supporting Text	Santos Comment
1.1 Reducing emissions in the electricity sector after 2030	Governments should prioritise introducing enduring, broad-based market settings in the electricity sector beyond 2030. The settings should: · create nationally consistent incentives for lowest-cost clean energy, irrespective of generation technology or jurisdiction · embed investment incentives to ensure reliability and system security are maintained. Governments should also phase out any jurisdictional- and technology-specific incentives over time.	Concur with the principle of consistency in incentives to reduce emissions irrespective of technology. AEMO clearly indicate Gas Fired Generation has an important role in supporting stability in a power system dominated by variable renewables. Similarly, incentives for CCS will assist in the quest to reduce emissions through abatement of carbon in gas supply, and sequestration of scope 3 emissions.
1.2 The Safeguard Mechanism should cover more industrial facilities and carbon leakage provisions should be improved	The Australian Government should lower the Safeguard Mechanism threshold so that it covers more industrial facilities. The Safeguard Mechanism review scheduled for 2026–27 should determine the new threshold but favour broadening the scheme as much as possible. The review should also consider whether the lower threshold would introduce inefficiencies such as uneven coverage in some sectors, and whether it would be appropriate to phase in the inclusion of new facilities. If the review identifies no major countervailing considerations, reducing the threshold from 100,000 tonnes to 25,000 tonnes of carbon dioxide equivalent per year would be reasonable. If the Australian Government introduces a border carbon adjustment, it should phase out trade-exposed baseline-adjusted status for Safeguard Mechanism facilities that would otherwise be exposed to competition from imports from countries without domestic policies to reduce emissions.	Maintaining multiple pathways to Net Zero is essential to manage risk and to ensure a least-cost transition. A whole-of-economy approach is critical, extending beyond the electricity sector to encompass all sectors and including the use of high-integrity Australian and international offsets to smooth the transition and address residual emissions. Any move to broaden the contributions to Net Zero activity should be supported through appropriate mechanisms / methodologies to ensure cost-effective solutions are in place to meet any compliance obligations. Timely approval of ACCU generating methodologies and consideration of linkage through Article 6 mechanisms can support access to competitively priced sources of emissions reduction. Any leakage definitions should be transparently benchmarked and appropriately correlated.
1.3 Introduce an emissions-reduction incentive for heavy vehicles and phase-out	The Australian Government should introduce a new emissions-reduction incentive to cover heavy vehicles. The incentive should be as technology-neutral as possible, meaning that it should create the same incentive to reduce emissions by switching from	Support – consistent with the principle of spreading the burden of emissions reduction across all sectors.

Santos

policy overlaps for light vehicles	fossil fuels to electric vehicles, low-carbon liquid fuels or any other method to reduce emissions. Now that the Australian Government has implemented the New Vehicle Efficiency Standard, it should phase-out the exemption of electric vehicles from the Fringe Benefits Tax, and state and territory governments should phase-out the exemption of electric vehicles from vehicle stamp duty and registration discounts.	
1.4 Apply frameworks to achieve emissions targets at least cost and improve transparency	The Australian, state and territory governments should improve the transparency of emissions-reduction policies by consistently including estimates of their cost-effectiveness in impact analyses. Those estimates should routinely be assessed against agreed national carbon values. The Australian Government should: · • task an independent agency with relevant expertise with developing national carbon values. These values — estimates of the implied carbon prices needed to meet Australia's emissions targets — should be used consistently as policy benchmarks across government and in regular reporting on the cost-effectiveness of emissions-reduction policies · • design and evolve policy settings to be broadly aligned with these carbon values. To support achieving net zero in 2050 at as low a cost as possible, the Australian Government should: · • develop a framework for extending emissions-reduction incentives to new sectors. The costs associated with any new policies to reduce emissions in areas like agriculture and household gas should align with the target-consistent carbon values · • continue work to ensure ACCUs are high integrity and seek to integrate ACCUs into every national emissions-reduction policy in the long term so hard-to-	*Carbon values:* The setting of carbon value benchmarks has the potential to result in policy outcomes that incentivise 'known' technologies and decarbonisation pathways, but disincentivise emerging technologies if their current cost is above the carbon values. The approach risks disregarding the potential for costs to reduce with time and additional incentivised R&D spend. *Achieving Nnet zero in 2050 at as low a cost as possible:* Broadening the range of approaches recognised for achieving bona fide emissions reductions (i.e. through the ACCU scheme) will enable the discovery of lowest cost options. Currently, this is restricted by two factors which should be prioritised given their potential impact on Scheme integrity: • the limited number of ACCU methods capable of achieving emissions reductions at scale and restrictions related to their use; and • the relatively slow development of new methods that could offer scale. Policy settings that ensure an appropriate supply of ACCUs is available should be considered, including timely approval of new methodologies for nature based units and assessment of linkage of the ACCU scheme through existing and new Article 6 mechanisms. Noting the Offsets Integrity Standards currently ensure the integrity of the Australian Carbon Credit Units scheme, a consistent, transparent and quantitative definition of integrity that

Santos

	abate emitters face consistent incentives.	enables all unit types to be assessed, including those at lower cost than ACCUs, should be available to all market participants. Consistent incentives already exist for hard-to-abate emitters; what is not consistent is the mechanisms by which they are encouraged to address their emissions (e.g. duplicative requirements to Safeguard Mechanism through bespoke requirements under state-based approval conditions).
2.1 Reform national environment laws **2.2 Set up a specialist 'strike team' for priority projects** **2.3 Establish a Coordinator-General for priority projects** **2.4 Consider the energy transition in approval decisions**	The Australian Government should reform environment laws to expedite approvals for clean energy projects and better protect the environment. The reforms should: • Make offsetting arrangements more efficient, such as by enabling developers to meet their offset obligations by contributing to an Australian Government offsets fund • set clear expectations about engagement with local communities and Aboriginal and Torres Strait Islander people.	Any policies and incentives should be technology agnostic and focus on lowest-cost abatement. The PC's focus on renewables as the 'best' decarbonisation solution is flawed and a clear example of picking winners. The recommendations for accelerating renewables projects – establishing a 'strike' team, reviewing and streamlining environmental standards, establishing a Coordinator-General for renewable energy projects – should be applied to all projects which enhance the economic welfare of the nation. Special dispensation for the energy transition implies the abandonment of considerations otherwise required by aw. Santos is supportive of making biodiversity offset arrangements more efficient, such as by enabling developers to meet their offset obligations by contributing to an Australian Government offsets fund or through amending the Nature Repair Market legislation to allow proponents to discharge their offset obligations by purchasing certificates that comply with offset rules. Making these changes would allow for offset certainty for developers while also providing a compliance demand for credits and certificates that is currently missing under the Nature Repair Market. First Nations consultation must be authentic ensuring a thorough consideration of issues to inform definitive decisions. Clear principles are required for the conduct of community meetings, including provision of information,

Santos

		opportunity for comment and fair resourcing of community members' engagement.
3.1 – 3.3 Information on climate hazards, adaptation and resilience		No comment.
3.4 Give the Climate Change Authority responsibility for monitoring, evaluation and learning regarding adaptation policy	The Australian Government should legislate for the Climate Change Authority to take responsibility for monitoring, evaluating and learning to inform governments and the public about progress in adapting to climate change, and whether policies are effective.	Support.