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bp Australia's submission to the *investing in cheaper, cleaner energy and the net zero transformation* interim report

bp Australia welcomes the opportunity to provide our views in response to the Productivity Commission's (Productivity Commission) interim report: investing in cheaper, cleaner energy and the net zero transformation.

About bp

bp's purpose is to deliver energy to the world, today and tomorrow.

We are an integrated energy company, serving customers across all sectors, from light vehicles to heavy transport, rail, aviation, and marine.

Our history in Australia spans more than a century, and our customers are at the heart of our operations across all states and territories. Through our growing network of over 1,400 retail sites and bp pulse charging stations, we provide the convenience, mobility, and energy solutions they rely on.

We're also integrating our natural gas capabilities with power trading and growth in low-carbon markets, including wind, solar, hydrogen, and carbon capture and storage. Our business model and service offerings continue to evolve with our customers' needs, today and into the future.

Globally, bp aims to be net zero across our operations (scope 1 & 2), and in the energy products we sell (life-cycle emissions intensity) by 2050 or sooner. You can read more about our net zero plans in our most recent sustainability report [here](#).

Core principles in the design of emission reduction policies

bp supports the three principles proposed by the PC for emissions reduction policies in Australia.

bp's Energy Outlook indicates a range of abatement options are necessary to meet the Paris Agreement goals, including renewable electricity, low carbon gases like hydrogen and biomethane, low carbon liquid fuels and carbon capture use and storage. Australia's policy should remain open to all abatement options.

Some current policies exclude incentives for natural gas, which plays a crucial role in the energy transition. Climate policy needs to recognize the role of gas in the transition, provide incentives to reduce emissions from the production and use of gas in a consistent way to other emissions sources, and include the gas sector in programs designed to accelerate emissions reductions as are provided to other technologies and sectors.

Additional policies are needed to drive emissions reductions across all sectors of the economy. Stable market-based policies that provide a price on emissions and allow different emission reduction options to compete should be prioritized.

While removing policy overlaps is sensible, there is a role for targeted incentives for certain abatement technologies, to support the technology's development, first-of-kind deployment and the subsequent activation and scale-up of deployment. These policies can help to bring down costs of emissions reductions over the medium and long-term.

In addressing potential overlapping policy, a distinction needs to be made between emission reduction policies and those with other primary objectives that also reduce emissions. For example, well-designed industry policy such as the Future Made in Australia suite of policies can complement emissions reduction incentives.

Care should also be taken not to remove announced incentives ahead of schedule, as this can undermine investor confidence. Significant ongoing investment from the private sector is crucial for Australia's energy transition which will be more difficult if investors are not confident policies will be enduring.

Reducing emissions in the electricity sector after 2030

bp agrees with the PC's recommendation that there should be consistent incentives for clean energy across the country. Renewable electricity deployment and greater electrification of energy demand will be key for achieving Australia's emission reduction targets.

Policy needs to go beyond the National Electricity Market since a significant proportion of Australia's energy demand that will shift to renewable electricity won't be supplied from the NEM. While we agree incentives should broadly align across the country, this may require tailored policy settings to reflect the different market structures and regional specific barriers. For example, currently the Capacity Investment Scheme helps to derisk new investments in large-scale renewable electricity generation that can supply the main grids. But investments that fall outside the grid do not currently benefit from similar support even though they face similar risks and barriers. These investments will require policy mechanisms that reflect the market structure (that is, unregulated pricing as well as the project-on-project risks that come from an end-to-end market instead of a wholes sale market).

State and Federal Governments need to work collaboratively to ensure alignment between the Safeguard Mechanism and electricity sector policies. It's important that there is policy alignment and not competing priorities.

Incentives to electrify and shift to renewable electricity are not straight forward under the Safeguard Mechanism with different incentives offered depending on whether you are self-generating electricity, if a third party is generating the electricity off-grid, or if you are grid-connected.

The Safeguard Mechanism is an efficient policy

bp continues to support the Safeguard Mechanism as a key policy to achieve Australia's emission reduction targets. As a market-based mechanism it provides an efficient incentive for covered entities to reduce their emissions. Policy stability and predictability under the Safeguard Mechanism are important to maintain investor confidence.

We agree with the PC that maintaining access to high-integrity ACCUs will be critical. The decline rate in the benchmarks provides material ambition and provides incentives for both direct emissions reductions, as well as in other sectors of the economy via the use of ACCUs. Access to ACCUs allows for emissions reductions to occur where they are most efficient, with baselines determining the share of the national target that safeguard entities are responsible for (the burden).

bp has previously advocated for the coverage of the Safeguard Mechanism to be expanded over time and support this being considered further in the upcoming review. To achieve Australia's emission reduction targets, all sources of emissions need to be subject to some form of emission reduction policy.

By widening the coverage of the Safeguard Mechanism, government can use the same architecture to drive emission reductions across more of the economy, limiting the need to design separate policies. By including more emissions sources within the same policy, the market can drive efficiencies and determine where emissions reductions are best achieved (rather than government trying to emulate this in the design of different policies).

Carbon leakage provisions should be improved

bp acknowledges there is a risk of 'carbon leakage' associated with the safeguard mechanism while other countries do not yet have equivalent policy settings. As more countries take action to reduce their emissions, we expect the risk of carbon leakage to reduce. We have previously noted concerns with the Trade Exposed Baseline Adjusted (TEBA) arrangements and would welcome further consideration of other options to address the risk of carbon leakage including an adjustment at the border.

Filling policy gaps in the transport sector

Policy to reduce emissions from liquid fuel use across the economy is currently insufficient: only a proportion is covered under the Safeguard Mechanism; the New Vehicle Emissions Standard (NVES) relies on the turnover of vehicles, and as the PC notes, does not address heavy vehicles.

A fuel system wide approach will be most efficient. The current liquid fuel system is highly integrated with diverse customers (retail consumers, heavy industry, long haul road transport, rail, marine) relying on common supply systems and shared infrastructure. The transition is unlikely to be efficient if different end customers face slightly different incentives or obligations under a patchwork of policies.

bp joins others in the industry in calling for new policy (a low carbon fuel standard - LCFS) to drive down the emissions intensity of liquid fuels used in Australia. Similar policies that have had success in other markets and Australia can leverage their experience in designing its own policy. A low carbon fuels standard is a **market-based** approach that sets regulated declining carbon intensity targets for liquid fuel used in Australia. It can be designed to capture a **wide range of end consumers** and accommodate **different decarbonisation technologies** allowing for different technologies to compete to drive efficiencies and reduce costs. The obligation could be placed on fuel suppliers, like bp, with fuels supplied with a carbon intensity below the target receiving credits and fuel supplied with carbon intensity above the target generating a debit.

We also acknowledge that some abatement options can have unintended consequences for emissions upstream. For example, some low carbon fuels are made from feedstocks where the lifecycle emissions can be greater than the fossil equivalent. To reduce the risk of these perverse outcomes, the incentive should be based on lifecycle emissions.

Government would also need to establish a sustainability standard and certification system to underpin the policy. This could leverage the work already underway to establish a Guarantee of Origin system for renewable electricity, hydrogen and other low carbon gases.

bp considers a LCFS is preferable to each of the options described in the PCs interim report.

Phase-out policy overlaps for light vehicles

While we acknowledge the benefits of removing overlapping policies, we caution governments removing incentives that have already been announced and/or implemented because it risks undermining investor confidence at a time when Australia needs to attract material additional investments. Investment in charging infrastructure has been made on the basis of announced policy including the NVES and other incentives outlined by the PC.

Apply frameworks to achieve emission targets at least cost and improve transparency

bp agrees Australian governments should establish a framework for climate policy across the economy. bp expects all sectors of the economy will contribute to Australia's emissions reduction targets and ideally face similar incentives and burden to reduce emissions.

Developing national carbon values could be a useful tool for government in designing further emissions reduction policies and adjusting policy settings overtime. However, in practice these exercises are highly reliant on the input assumptions and modelling approaches used to establish them, which inevitably will have their limitations.

An advantage of well-designed, market-based policy is governments do not need to understand the exact abatement options that will be deployed or their costs before implementing the policy. Governments should not delay the implementation of these policies while they seek to establish the 'correct' carbon values.

On principle, all sources of emissions should face an incentive to reduce those emissions or contribute through the funding of offset activities. As has been the approach under the safeguard mechanism, policy should be progressed even where those emissions may be hard-to-abate or more costly to reduce than the carbon value. The use of common offsets (e.g., ACCUs) across different policies provides an opportunity to align incentives and share the burden across different sectors of the economy.

Speeding up approvals for new energy infrastructure

bp supports reforms to the EPBC Act based on the recommendations of the Samuel Review. There is a clear need to deliver stronger environmental protections for nature, while also urgently improving the efficiency of the processes under the Act as a key part of reforms aimed at increasing national productivity.

Essential reforms include:

- **National Environmental Standards:** Standards should cover the fundamentals needed to support effective implementation of the EPBC Act, focused on environmental outcomes. They are not the place for highly prescriptive processes. They must also be designed to enable the accreditation of states and territories to make decisions on projects.
- **State and territory accreditation:** Accreditation provides a single assessment and decision point (or 'single desk') for both state and federal environmental approvals. This is essential to remove duplication and inconsistency between the different levels of government. The National Environmental Standards will ensure strong environmental protections in an accredited system.
- **Transparency & Streamlining:** Enforceable time limits with proponent rights to deemed decision making or escalation provisions. Open-ended 'reconsideration requests' should be removed.
- **EPA:** should be focused on enforcement, compliance, and assurance of accreditation for the Minister. Final decisions should remain with the Minister to credibly balance environmental, social, and economic outcomes when deciding on projects. EPBC assessments will need to be resourced appropriately to deliver faster decisions.

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