



ACCR INVESTOR BRIEFING

SEPTEMBER 2018
ORIGIN ENERGY LIMITED (ASX:ORG)

AGM: 17 October 2018, Sydney

ACCR AUSTRALASIAN
CENTRE FOR
CORPORATE
RESPONSIBILITY

ABOUT ACCR

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

OVERVIEW

ACCR has requisitioned four resolutions for discussion at the AGM of Origin Energy Limited (Origin) this year. In addition to the procedural resolution recommending a change to the company's constitution in order to enable advisory resolutions, ACCR has filed resolutions relating to Origin's approach to consent on Aboriginal land in the Northern Territory, its interim emissions reduction targets, and its approach to governance of trade associations that undertake anti-climate lobbying.

Summary of 2018 Origin Energy resolutions

Resolution	Type	Issue	Threshold	Page(s)
9(a)	Special	Change to company constitution	75%	2
9(b)	Ordinary	Free, Prior and Informed Consent of Aboriginal communities re fracking	Contingent on 9(a) + 50%	2-4
9(c)	Ordinary	Interim emissions targets	Contingent on 9(a) + 50%	4-6
9(d)	Ordinary	Anti-climate lobbying through trade associations	Contingent on 9(a) + 50%	6-7

RESOLUTIONS AND COMMENTARY

Resolution 9(a) – special resolution to amend our company’s constitution

Shareholders request that the following new clause 8.11 be inserted into our company’s constitution:

Member resolutions at general meeting

The shareholders in general meeting may by ordinary resolution express an opinion, ask for information, or make a request, about the way in which a power of the company partially or exclusively vested in the directors has been or should be exercised. However, such a resolution must relate to an issue of material relevance to the company or the company’s business as identified by the company, and cannot either advocate action which would violate any law or relate to any personal claim or grievance. Such a resolution is advisory only and does not bind the directors or the company.

Commentary to resolution 9(a)

It is well understood that a special resolution is required under Australian law in order for ordinary resolutions on ESG risk to be put to a vote. All of our comments are contained in our supporting statement.

Resolution 9(b) - Ordinary resolution on Free, Prior and Informed Consent

Shareholders request that:

- 1. the Board commission a comprehensive review of whether Free, Prior and Informed Consent (FPIC) of Aboriginal Traditional Owners and communities who may be affected by our company’s operations has been established in relation to any petroleum exploration permits our company has obtained in the Northern Territory (FPIC Review); and*
- 2. the Board prepare (at reasonable cost and omitting confidential information) a report describing the completed FPIC Review, to be made available to shareholders on the company*

¹See <https://www.oxfam.org.au/what-we-do/mining/free-prior-and-informed-consent/>

²UNGPs, commentary to principle 11

website prior to any further exploration activity taking place.

Commentary to Resolution 9(b)

RELEVANT STANDARDS

The principle of free, prior and informed consent (FPIC) is recognised in international law, and “represents the highest standard possible for the involvement of Indigenous Peoples in decision-making processes about large extractive projects.”¹

Respect for FPIC is recognised as central to discharging the corporate responsibility to respect human rights under the UN Guiding Principles on Business and Human Rights (UNGPs), where companies interact with Indigenous Peoples. Under principle 13(a) of the UNGPs, companies must “avoid causing or contributing to adverse human rights impacts in their own activities.” This responsibility “exists over and above compliance with national laws and regulations protecting human rights” - that is, where local laws are inadequate, it is incumbent upon companies to look to international standards.²

Investors also have a responsibility to respect human rights under the UNGPs (see principle 13(b)). The ability to conduct adequate human rights due diligence is central to investors’ capacity to discharge this responsibility (principle 17). **This resolution is designed to enable appropriate due diligence to be undertaken by investors.**

We commend Origin’s statement that “our activities will be guided by” the UNGPs as well as the UN Declaration on the Rights of Indigenous Peoples (UNDRIP).³ Origin has also committed to “more thoughtfully and meaningfully work with Aboriginal and Torres Strait Islander peoples”⁴ through its Reconciliation Action Plan.

Where companies interact with Indigenous Peoples, obtaining genuine FPIC is an important measure in protecting shareholder value. In support of this position, we note the following:

- Globally speaking, “[i]n the last decade, the time taken to bring oil projects online has doubled, with 73% of delays due to non-technical

³Origin Energy Human Rights Policy <https://www.originenergy.com.au/content/dam/origin/about/investors-media/human-rights-policy.pdf>

⁴<https://www.originenergy.com.au/content/dam/origin/about/community/docs/reconciliation-action-plan.pdf>

problems – including resistance from Indigenous stakeholders.”⁵

- Denouncements by Indigenous peoples of corporate non-compliance with UNDRIP before enacting projects on their land have increased in recent times.⁶ According to Hermes Investment Management,⁷ “[s]uch tumult has prompted investors to engage with companies about FPIC.”
- Origin frequently states its commitment to consent, which is commendable, however, we emphasise that **a commitment to consent does not necessarily deliver consent**, and that “[d]espite good intentions, good laws and progressive human rights instruments, there [may still remain] a gap between words and actions.”⁸

FPIC AND RISK CONCERNS

- Origin holds petroleum exploration permits on Aboriginal land in the Northern Territory (NT). We plan to undertake exploration and, ultimately, hydraulic fracturing (fracking) activities on that land.
- A recent review by the Jumbunna Institute for Indigenous Education and Research, at the University of Technology, Sydney, of publicly available information about consent processes in place in the NT,⁹ including the findings of the Hawke¹⁰ and Pepper¹¹ inquiries, raises the concerning prospect that most if not all petroleum exploration permits in the NT have been issued in the absence of FPIC. This poses significant risks to Origin.
- In September 2018 ACCR undertook a brief fact-finding trip to the Origin permit area in the NT. A number of interviews with Aboriginal Traditional Owners were conducted, and concerns about

consent processes as well as the environmental and cultural impacts of fracking appeared genuine, widespread and serious. Many remote communities are limited in their engagement with consent processes by a lack of basic transport and telecommunications infrastructure.

- Concerns in relation to FPIC centre around the immense power imbalance between companies such as ours and Aboriginal Traditional Owners, and the lack of appropriate information provided to Aboriginal Traditional Owners in the relevant language. Furthermore, the Pepper Review has occasioned a mass leap forward in understandings about fracking – which suggests that new information must be provided to communities for informed consent to be said to have occurred.
- This is an emerging issue and preliminary discussions with civil society organisations have revealed that community attention on fracking in the NT will increase.¹² If it becomes clear that FPIC is not being adhered to, Origin can expect escalating community concern, which may translate into significant campaigning and protest action. Given Origin’s consumer profile it is important to protect its brand against potential risks of this kind.
- Hermes Investment Management recommends that, “Until FPIC has been obtained, a project should not commence. Even during a project’s life-cycle consent can be withdrawn and amended. It is therefore vital that projects not only deliver on what has been agreed but that dialogue and consultation continues between the [I]ndigenous peoples affected by any project and the project developers and owners.”¹³

⁵Tim Goodman, Hermes investment management, 29 January 2018, available at <https://www.hermes-investment.com/au/blog/perspective/companies-indigenous-peoples-collide/> citing Investors and indigenous people: Bridging cultures and reducing risk,” published by First People Worldwide as at November 2015

⁶Free Prior and Informed Consent: An indigenous peoples’ right and a good practice for local communities,” published by the Food and Agriculture Organisation of the United Nations as at December 2016

⁷Tim Goodman, Hermes investment management, 29 January 2018, available at <https://www.hermes-investment.com/au/blog/perspective/companies-indigenous-peoples-collide/>

⁸Statement by the Chair of the UN Permanent Forum on Indigenous Issue (UNPFII) on the 10th Anniversary of the UNDRIP,” published by the UN as at September 2017

⁹See <https://accr.org.au/wp-content/uploads/Jumbunna-FPIC-review-final.pdf>. This review has included the findings of the

Hawke Inquiry, the Pepper Inquiry, submissions to those inquiries, and credible media reporting

¹⁰Report of the Independent Inquiry into Hydraulic Fracturing in the Northern Territory, 2014 see https://frackinginquiry.nt.gov.au/__data/assets/pdf_file/0008/387764/report-inquiry-into-hydraulic-fracturing-nt.pdf

¹¹Scientific Inquiry into Hydraulic Fracturing of Onshore Unconventional Reservoirs in the Northern Territory, 2018, see <https://frackinginquiry.nt.gov.au/>

¹²See, for example <https://www.theguardian.com/environment/2018/jun/18/not-safe-not-wanted-is-the-end-of-nt-fracking-ban-a-taste-of-things-to-come>

¹³Tim Goodman, Hermes investment management, 29 January 2018, available at <https://www.hermes-investment.com/au/blog/perspective/companies-indigenous-peoples-collide/>

RECOMMENDED APPROACH

- The NT is a complex environment for obtaining FPIC and Origin should exercise caution.
- This resolution is urgent given the lifting of the moratorium on fracking in the NT in April of this year, and the subsequent announcement by Origin of its intention to “resume work as soon as practical”, and its “plans to drill and fracture stimulate a further five wells to complete existing exploration permit commitments put in place prior to the moratorium being introduced in September 2016.”¹⁴
- If the FPIC Review requested finds that FPIC has not been clearly established, Origin should take active steps to ensure that Aboriginal Traditional Owners are afforded FPIC, by engaging in new consultation processes that comply with FPIC before any further exploration or production activity takes place.
- Investors are encouraged to conduct their own inquiries. ACCR is happy to play a role in facilitating introductions to concerned community members and organising an investor field trip to the NT.

Resolution 9(c) - Ordinary resolution on interim emissions targets

Shareholders request that:

1. *our company set and publish interim targets that are aligned with the goal of the Paris Climate Agreement to limit global warming to well below 2°C;*
2. *these targets be based on objectives over the next decade which are quantitative and reviewed regularly, and include:*
 - a. *the greenhouse gas (GHG) emissions of our company’s operations (Scope 1 and 2); and*
 - b. *the GHG emissions from the use of products sold by our company (Scope 3); and*
3. *our company’s annual reporting include information about plans and progress to achieve these targets.*

¹⁴<https://www.originenergy.com.au/about/investors-media/media-centre/origin-to-resume-beetaloo-exploration-in-nt.html>

¹⁵Origin Energy, ASX/Media Release, 14 December 2017

Commentary to resolution 9(c)

ORIGIN’S SCIENCE BASED TARGET

In December 2017, Origin Energy (Origin) committed to “a company-wide 50% reduction in absolute scope 1 and 2 carbon emissions by 2032” (on 2017 levels).¹⁵ Origin also committed to “a 25% reduction in value chain Scope 3 emissions on 2017 levels over the same period”.¹⁶ These targets were endorsed by the international Science Based Targets initiative (SBTi).¹⁷

Origin’s black coal-fired power station, Eraring, currently makes up ~70% of its operated Scope 1+2 emissions. In 2032, Eraring will be 50 years old and at the end of its economic life. Origin can feasibly increase its emissions by ~19% above its FY2017 baseline and still achieve the 50% target in 2032.

Origin nor the SBTi have disclosed the underlying assumptions or modelling upon which its endorsement was based. This is concerning given Origin’s recent emissions performance:

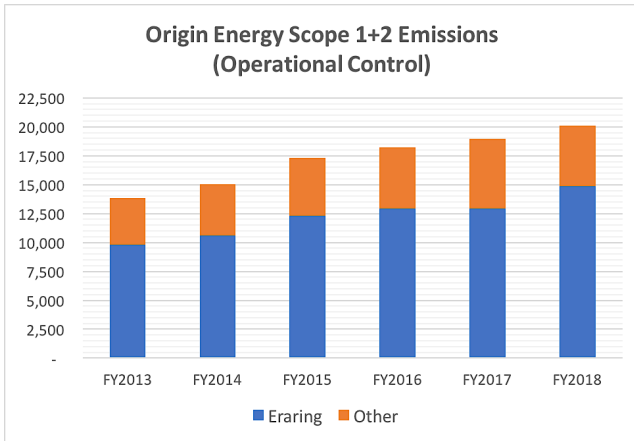
- In FY2018, operated Scope 1 & 2 emissions increased 6% to 20,079 ktCO₂-e due to “a full year’s contribution from APLNG Train Two and increased output from Eraring”;¹⁸
- The increased output from Eraring in FY2018 is expected to account for an additional ~2million tCO₂-e;
- Operated Scope 1 & 2 emissions increased 45% between FY2013 and FY2018;
- Emissions intensity of its generation portfolio worsened from 0.74 to 0.8 tonnes CO₂-e/MWh between FY2013 and FY2018.

Origin produced an additional ~1600 GWh of electricity from Eraring in FY2018 than it did in FY2017. The cumulative impact of operating Eraring at this level every year until 2032 would be the equivalent of keeping it open for an additional two years.

¹⁶ibid.

¹⁷ibid.

¹⁸Origin Energy, Financial Statements 30 June 2018



According to expert analysis cited in the 2018 Global Investor Statement to Governments on Climate Change¹⁹, to meet the Paris Agreement goal of limiting the increase in global temperatures to 2°C, coal-fired power generation must be phased out by 2030 in the European Union and OECD countries, including Australia.

REGULATORY RISK

Origin has a 70% interest in exploration permits over 18,500km² in the Beetaloo Basin. In February 2018, prominent climate scientists recommended in an open letter to the Scientific Inquiry into Hydraulic Fracturing in the NT (the Pepper Inquiry) that “the development of onshore shale gas and shale oil fields in the Northern Territory should not go ahead under any circumstances”,²⁰ due to the impact on Australia’s Paris Agreement commitments. The Inquiry found that life cycle emissions under the production scenarios considered in its risk assessment would increase Australia’s (2015) emissions by up to 6.6%.²¹

In April 2018, the NT government accepted all 135 recommendations of the Pepper Inquiry, including Recommendation 9.8 which recommends “governments seek to ensure that there is no net increase in the life cycle GHG emissions emitted in

Australia from any onshore shale gas produced in the NT”.²² Based on the medium production scenario considered by the Inquiry, the cost of abatement of life cycle emissions would be approximately \$2.9 billion p.a.,²³ assuming production is entirely for domestic consumption. To date, Origin has not disclosed its expected cost of abatement.

MARKET RISK

Several global oil majors have set aggressive emissions reductions targets. In November 2017, Royal Dutch Shell announced the ambition of reducing its “net carbon footprint” by 20% below the base year value by 2035, and 50% by 2050.²⁴ The “net carbon footprint” comprises the lifecycle emissions of energy it supplies, including emissions from the use of sold products.

In April 2018, BP announced a target of net zero growth in operational emissions from 2015 levels to 2025, while increasing production.²⁵

In July 2018, ENI announced that it will make a binding commitment to become carbon neutral, becoming the first oil major to do so.²⁶ It had previously announced plans to reduce its emissions intensity by 43% by 2025 (vs 2014) and reduce fugitive methane emissions by 80% by 2025 (vs 2014).²⁷

INTERNATIONAL SCRUTINY

In July 2018, the Transition Pathway Initiative (TPI) found that the emissions intensity of Origin’s electricity generation is “not aligned” with limiting global warming to 2°C.²⁸ Based on the TPI’s benchmarks for emissions intensity, which are consistent with the Paris Agreement, Origin will not be aligned in 2030, and may not be aligned even after Eraring is closed in 2032. Put simply, its existing targets are not ambitious enough to meet the aims of the Paris Agreement.

Origin’s inclusion in the Climate Action 100+ will subject its emissions performance to greater

¹⁹<https://theinvestoragenda.org/wp-content/uploads/2018/05/GISGCC-briefing-paper-FINAL.pdf>

²⁰<http://www.tai.org.au/content/open-letter-scientific-inquiry-hydraulic-fracturing-northern-territory-and-northern>

²¹<https://frackinginquiry.nt.gov.au/inquiry-reports/final-report>

²²ibid.

²³Medium scenario: 365PJ p.a. = 26.5 Mt CO₂e p.a. x \$110 per tCO₂e

²⁴<http://go.shell.com/2nSSAk5>

²⁵<https://www.bp.com/en/global/corporate/media/latest-news/bp-targets-low-carbon-future.html>

²⁶<https://www.reuters.com/article/us-eni-carbon/italys-eni-aims-for-oil-industry-first-with-carbon-neutral-goal-idUSKBN1JS14R>

²⁷https://www.eni.com/en_IT/sustainability/climate-change-and-new-forms-of-energy/reducing-emissions.page

²⁸Transition Pathway Initiative, ‘The state of transition in the coal mining, electricity and oil and gas sectors: TPI’s latest assessment’, July 2018

international scrutiny, particularly if its emissions continue to increase.

We emphasise our support for Origin's long-term goal of net zero emissions from the electricity sector by 2050.²⁹ We urge Origin to set substantive, interim targets to reduce its carbon emissions in order to deliver on its commitment to meet the aims of the Paris Agreement.

Resolution 9(d) – Ordinary resolution on public policy advocacy on climate change and energy by Relevant Industry Associations

Shareholders request that:

1. *the Board commission a comprehensive review of our company's positions, oversight and processes related to direct and indirect public policy advocacy (Lobbying Review), including through industry associations of which our company is a member or at which our company is formally represented (Relevant Industry Associations), on energy and climate change, covering the period 2012 to the present day.*

We request that the Lobbying Review:

1. *for each Relevant Industry Association, disclose the proportion of that Association's revenue contributed by our company;*
2. *evaluate whether advocacy positions* taken by Relevant Industry Associations in respect of Australian climate and energy policy serve our company's policy and financial interests;*
3. *evaluate whether advocacy positions* taken by Relevant Industry Associations are consistent with our company's pledge of support for the Paris Agreement as a global framework for reducing emissions; and*
4. *detail proposed actions to be taken as a result of the Review.*

**Given that 'advocacy positions' by Relevant Industry Associations are not always taken in written form, we request that the Lobbying Review include, as evidence of such advocacy positions, credible media reporting.*

2. *the Board prepare (at reasonable cost and omitting confidential information) a report describing the completed Lobbying Review, to be made available to shareholders on the company website within six months of the AGM at which this proposal is discussed.*
3. *the Board determine, and disclose to shareholders, the criteria by reference to which the company would discontinue membership of a Relevant Industry Association, in circumstances where the company's interests in respect of energy and climate policy are not promoted by that Association.*

Commentary to resolution 9(d)

AUSTRALIA'S POLITICAL CLIMATE

The last decade of Australian climate and energy policy has been characterised by short-lived policy subject to relentless scrutiny and adversarial campaigning by industry bodies. Most recently, the former Prime Minister's son claimed his father was deposed by vested interests in the Queensland coal industry³⁰.

Accordingly, we urge all listed companies to review their relationships with industry bodies that act as obstacles to effective climate policies. To date, BHP Billiton,³¹ BlueScope Steel, Boral³² and Rio Tinto³³ have each produced analyses of their industry associations' approaches to climate and energy policy.

In its 2017 Sustainability Report, Origin stated that it "actively participated" in the Australian Petroleum Production and Exploration Association, the Business Council of Australia, the Australian Energy Council, the Clean Energy Council and the Queensland Resources Council.³⁴ We believe this does not represent a comprehensive list of Origin's industry associations, nor does it include the policies lobbied for by each of these industry associations.

We are concerned that Origin's in principle commitment to the goals of the Paris Agreement is being undermined by Origin's membership of various

²⁹Origin Energy, 'Resilience of Origin's Generation Portfolio to a Low Carbon Economy', October 2017

³⁰<http://www.abc.net.au/news/2018-08-28/alex-turnbull-says-coal-miners-have-undue-influence-on-liberals/10170908>

³¹<https://www.bhp.com/>

/media/documents/ourapproach/operatingwithintegrity/industryassociations/171219_bhpindustryassociationreview.pdf?la=en

³²https://www.boral.com/industry_associations

³³https://www.riotinto.com/documents/RT_Participation_in_industry_associations.pdf

³⁴Origin Energy, Sustainability Report 2017, p51.

industry associations which undertake advocacy counter to these goals.

- **Australian Industry Greenhouse Network** advocates for emissions-intensive trade-exposed (EITE) industries to be exempt from the costs of climate and energy policy³⁵; which appears counter to the goals of the Paris Agreement.
- **Australian Petroleum Production and Exploration Association (APPEA)** has called for the removal of any regulatory barriers (including state-based moratoria) that prevent the development of Australia's gas resources³⁶ (conservative estimates of the global carbon budget suggest that 56% of Australia's gas resources must remain unburned³⁷); APPEA believes that climate policy should not impede the growth of the petroleum industry.³⁸
- **Australian Pipelines and Gas Association** advocates for switching the majority of Australia's coal-fired electricity generation to gas.³⁹
- **Business Council of Australia (BCA)** actively campaigned against and celebrated the repeal of Australia's short-lived price on carbon in 2014.⁴⁰
- The BCA described the Federal opposition's more ambitious target of a 45% reduction in emissions (by 2030) as an "economy-wrecking target",⁴¹ despite the Investor Group on Climate Change (IGCC) calling for far more ambitious policy⁴² than the government's lowly 26-28% target (by 2030).
- BCA CEO Jennifer Westacott has claimed that more ambitious emissions targets will result in "the deindustrialisation of the economy",⁴³ and told government MPs that the BCA would campaign against the opposition's more ambitious emissions target⁴⁴;

- BCA President Grant King believes the continued export of Australian coal will assist other countries to reduce their emissions⁴⁵, which runs counter to Origin's interests;
- Origin's CEO is a member of the BCA's Energy and Climate Change Committee.⁴⁶
- **Gas Energy Australia** has singularly blamed renewable energy for rising electricity prices, and advocates for the primary role of gas in reducing emissions.⁴⁷
- **Queensland Resources Council (QRC)** has repeatedly lobbied for government policy and financial support for the construction of new coal-fired power generation⁴⁸;
- The QRC supports the development of new thermal coal mines in Queensland including Adani's Carmichael coal mine.⁴⁹

Many of these policy interventions seek to weaken policy outcomes and delay action that would meet the goals of the Paris Agreement. The breadth of such lobbying suggests that Origin's governance of industry association relationships is inadequate, and that its ambition to transition to a low carbon portfolio is underserved by many of these relationships.

We emphasise our support for Origin's long-term goal of net zero emissions from the electricity sector by 2050.⁵⁰ However, the activities of industry associations of which it is a member stand in conflict with this commitment and have the potential to undermine shareholder value over time, given its exposure to climate-related risk and policy instability.

Origin's membership of Relevant Industry Associations should therefore be reviewed in light of those associations' positions, with a view to establishing criteria for discontinuing memberships that have not promoted its interests.

³⁵AIGN comments on National Energy Guarantee – draft detailed design consultation paper, 13 July 2018

³⁶APPEA Submission to ESB National Energy Guarantee Draft Detailed Design Consultation Paper, 15 June 2018

³⁷McGlade & Ekins, 'The geographical distribution of fossil fuels unused when limiting global warming to 2°C', Nature, Jan 2015

³⁸APPEA Climate Change Policy Principles, December 2015

³⁹APGA Submission to the Draft Design Consultation Paper - National Energy Guarantee, March 2018

⁴⁰<http://www.bca.com.au/media/business-groups-welcome-carbon-tax-repeal>

⁴¹<https://twitter.com/BCAcomau/status/1011414577702031361>

⁴²<https://igcc.org.au/investors-call-for-ambition-shortfall-to-be-addressed-in-the-national-energy-guarantee>

⁴³<https://twitter.com/SkyNewsAust/status/1025867269719519232>

⁴⁴<https://www.theguardian.com/australia-news/2018/jun/26/turnbull-quashes-abbotts-bid-to-give-party-room-a-say-on-energy-guarantee>

⁴⁵<https://www.gladstoneobserver.com.au/news/business-council-gladstone-at-the-centre-of-nation/3474433/>

⁴⁶<http://www.bca.com.au/about-us/energy-and-climate-change-committee>

⁴⁷Gas Energy Australia, Submissions to National Energy Guarantee (NEG) Draft Detailed Design Consultation Paper, 13 July 2018

⁴⁸<https://www.qrc.org.au/media-releases/queensland-ideal-place-for-hele-coal-investment/>

⁴⁹<https://www.qrc.org.au/media-releases/statement-queensland-resources-council-chief-executive-ian-macfarlane-adani/>

⁵⁰Origin Energy, 'Resilience of Origin's Generation Portfolio to a Low Carbon Economy', October 2017