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FLAT WHITE

Woodside drops $7 billion low-carbon investment target

Is the balance of power shifting away from Net Zero projects and investments?

Alan Moran

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In a sharp reversal of its former clean-energy commitments, energy giant Woodside has apparently dumped its $7 billion low-carbon investment target and will review its new Beaumont low-carbon ammonia project.

Even for a titan (Woodside's capitalisation is roughly 2 per cent of the total value of shares listed on the ASX), such snoot cocking at the government's most prominent policy carries risks. This is especially true for a business hostage to key regulatory decisions – the recent 40-year extension of Woodside's mandate to continue operating in the North West Shelf reportedly involved nearly 200 texts with Environment Minister Murray Watt's office. To abandon its former highly publicised clean-energy commitments so openly suggests those commitments might have been hurting its share price more than the costs estimated from their public clawback.

The performance of Fortescue and BHP illustrates the costs of pursuing green energy policies. Both have benefited enormously from iron ore prices and seen their shareholder returns rise by 40 per cent and 76 per cent, respectively, over the past five years. Fortescue's ambitions for green energy in iron ore supply are thought by some to have contributed to its relatively poor share results. Its management responded by paring back green hydrogen projects in Arizona and at Gladstone.

Net Zero climate policy remains talismanic for the Australian government as it is for European governments. Fast-growing China, India, and Vietnam have never seriously followed it, and the Trump Administration has stridently abandoned it.

At least partly because Trump reversed the Biden Administration's Net Zero goals, many global financiers like Bank of America, Macquarie, and Deutsche Bank have backed away from greenhouse commitments they previously followed. And US-based fund managers, including the 'Big Three' (BlackRock, Vanguard, and State Street), have reduced active support for fossil-fuel restrictions on their investments and have almost entirely dropped their previous support and threats of divestment in response to all environmental as well as social policies of companies. All have left the Net Zero Asset Managers (NZAM) initiative.

Such developments may have influenced policy in the Australian financial sector. The financial planner, finder.com, provides data on about 80 superannuation funds offering 483 different policy varieties. Some 84 of these offerings claim to avoid, or in some cases totally exclude, investing in coal. Many of them also avoid gas and oil investments. The Friends of the Earth-affiliated Market Forces maintains that two-thirds of the top 30 funds have restricted their investments in coal but, reprovingly, also presents data showing that only one has a total restriction.

Signs suggest that superannuation funds that have marketed themselves as avoiding coal investments are having second thoughts. AustralianSuper (Australia's largest fund) divested from Whitehaven Coal in 2020 as part of its Net Zero 2050 commitment but has now become perhaps the firm's largest single shareholder. Vision Super as early as 2023 replaced its exclusion of coal with a broader 'carbon budget framework'.

Such policy revisions may reflect the slight average underperformance of coal-shunning funds in recent years (7.8 per cent last year compared to the average funds' 8.2 per cent, and 9.16 per cent over the last three years compared to the average funds' 9.43 per cent). But some funds that seek to avoid coal investments, including Aware, Hostplus, and several UniSuper offerings, have outpaced the average. (Australian Ethical Balanced is the one fund Market Forces identifies as comprehensively excluding businesses with a focus on fossil fuel from its investment portfolio; in spite of charging high annual fees, it has been a solid underperformer).

Rod Sims, former Australian Competition and Consumer Commission chairman and now chairman of decarbonisation lobbyist, the Superpower Institute, argues that the political risk of investing in fossil fuels will remain. Perhaps so – and if the Republicans fail to retain the US Presidency in 2028 there is likely to be some move back towards Net Zero.

However, if industrial and financial business leaders were previously blind to the costs of shifting to renewable energy, the scales are falling from their eyes. And politicians, irrespective of the time and effort they have invested in a policy that is delivering poor returns, economic stagnation and deindustrialisation cannot back it forever and remain in office.