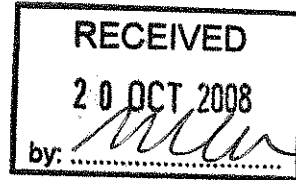




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15 October 2008

Mr Kelvin Thompson MP
Committee Chair
Joint Standing Committee on Treaties
Department of House of Representatives
PO Box 6021
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(via e-mail to: jsct@aph.gov.au)

**RE: APPEA SUBMISSION TO THE JOINT STANDING COMMITTEE ON TREATIES
INQUIRY INTO KYOTO PROTOCOL TO THE UNITED NATIONS
FRAMEWORK CONVENTION ON CLIMATE CHANGE**

The Australian Petroleum Production & Exploration Association (APPEA) is the peak national body representing the Australian upstream oil and gas industry. APPEA member companies collectively produce around 98 per cent of Australia's oil and gas. Further details about APPEA can be found at our website, at www.appea.com.au.

APPEA welcomes the opportunity to provide this submission to the Joint Standing Committee on Treaties Inquiry into Kyoto Protocol to the United Nations Framework Convention on Climate Change.

APPEA, and its members, are committed to working towards a profitable, safe, environmentally and socially responsible oil and gas exploration, development and production industry.

APPEA works with governments and other stakeholders to achieve credible industry actions and governmental greenhouse policies that address greenhouse concerns in an economically and commercially viable way, including ways to maintain international competitiveness. As part of this, the upstream oil and gas industry's *Greenhouse Response Strategy* is a public statement, released in 2003, of the industry's approach to greenhouse policy. A copy of the APPEA *Greenhouse Response Strategy* can be found at **Attachment 1**¹.

¹ The *Greenhouse Response Strategy* can also be downloaded from the APPEA website, at www.appea.com.au/content/pdfs_docs_xls/PolicyIndustryIssues/APPEAGreenhouseResponseStrategyNov03.pdf.

As part of its commitment to addressing greenhouse issues, APPEA was an original signatory to the Greenhouse Challenge Program in 1996². Greenhouse Challenge (now Greenhouse Challenge Plus) members from the upstream oil and gas industry have abated over 22 million tonnes (Mt) of carbon dioxide equivalent (CO₂-e) since that time. Overall, emissions from the upstream oil and gas industry account for less than 4 per cent of Australia's total emissions.

In addition, the industry is likely to play a key role in accelerating the development of carbon capture and storage (CCS) technologies in Australia, identified and supported by the Government as a critical greenhouse gas mitigation technology for Australia.

APPEA is also a member of the Australian Industry Greenhouse Network (AIGN), a network of industry associations and individual businesses which contribute to the climate change policy debate and see value in joint industry action on climate change policy issues in order to promote sustainable industry development³. APPEA has contributed to the AIGN submission to the Committee.

APPEA's comments focus on a particular aspect of the Committee's inquiry – the treatment of emissions-intensive trade-exposed industries, such as Australia's liquefied natural gas (LNG) industry, in the absence of a global agreement. This issue was considered in detail in APPEA's 12 September 2008 submission to the Australian Government's Carbon Pollution Reduction Scheme Green Paper⁴. A copy of the APPEA submission can be found at **Attachment 2**.

One of the key issues for Australia's LNG industry, arising in the context of Australia's ratification of the Kyoto Protocol and the Australian Government's commitment to place a price on carbon through the introduction of an emissions trading scheme from 2010, are the implications for Australia's emissions-intensive trade-exposed industries, such as LNG.

As has been considered and accepted by every major credible analysis of an emissions trading scheme undertaken in Australia and internationally, if policies and measures such as emissions trading schemes are implemented in some countries and not in others, distortions will occur as a result of the escalation in production costs in the countries that have implemented greenhouse policies relative to those that have not. Distortions will occur to consumption, production and investment decisions, and overall emissions could increase if carbon leakage is significant in cases where few countries have implemented binding policies.

² Greenhouse Challenge Plus is designed to reduce greenhouse gas emissions, accelerate the uptake of energy efficiency, integrate greenhouse issues into business decision-making and provide more consistent reporting of greenhouse gas emissions levels. The APPEA Chief Executive is currently the Industry co-Chair of the Industry-Government Greenhouse Partnership Committee, that provides a forum for consultation on the key issues impacting on Greenhouse Challenge Plus and to ensure the effective development and operation of the program. (see www.environment.gov.au/settlements/challenge/members/igagpc.html) for further information.

³ See www.aign.net.au for further information.

⁴ See www.appea.com.au/content/pdfs_docs_xls/PolicyIndustryIssues/appea_submission_100908.pdf and www.climatechange.gov.au/greenpaper/consultation/pubs/0834-appea.pdf for further information.

APPEA has long recommended measure(s) to deal with this international policy distortion must be a central feature of any emissions trading scheme introduced in Australia.

In doing so, it is vitally important to recall why the emissions-intensive trade-exposed issue arises at all – that is, the failure of Governments to reach a global agreement on carbon pricing and the consequent implications for industry competitiveness that arise from unilateral actions by any one Government.

With that in mind, the industry's key objective in considering this issue is to ensure that the Australian LNG industry does not bear an additional cost impact for as long as our competitors and customers are not subject to a similar impost.

There are a variety of ways to manage this transitional issue (transitional in the sense that a global emissions trading scheme or appropriate sectoral agreement would remove such trade competitiveness impacts) under an emission trading scheme, although there is no ideal approach that avoids all costs. APPEA notes no emissions trading scheme proposed or introduced to date or proposed to be introduced – such as in Australia – has dealt comprehensively and effectively with this issue.

Importantly in the context of the Committee's inquiry, Australia must do all it can to secure a binding international or sectoral agreement. Once this is secured the emissions-intensive trade-exposed issue dissolves and features designed to correct any international policy distortions are unnecessary.

As the AIGN noted and as specified under the United Nations Framework Convention on Climate Change, in setting an Australian trajectory and negotiating a new international commitment, for the post 2012 period, Australia must fully consider the circumstances of its economy relative to other advanced countries – particularly Australia's emission trends, GDP growth, population growth, energy sources and Australia's resource endowment, upon which much of our economic prosperity is based.

In the absence of an agreement among countries, this means building into Australia's emission budget room for new emissions-intensive trade-exposed projects in Australia. This issue is particularly important for the Australian LNG industry, which stands to benefit from a global carbon constraint and has an aspirational target of tripling LNG exports over the next decade.

APPEA believes agreement will be difficult to reach and drawn out over many years. In these circumstances, other approaches need to be explored in parallel with negotiation of a comprehensive global agreement. One such approach derives from Professor McKibbin's work, and is endorsed in Professor Garnaut's Final Report⁵.

⁵ Garnaut Climate Change Review, *Final Report*, September 2008 (see www.garnautreview.org.au for further information).

The proposition is that the countries that are competing for new investment in what the AIGN submission referred to as globally traded emission intensive goods (GTEIG), such as LNG, would agree to equally tax those new projects. In this way, investment decisions in those new projects would not be distorted by the absence of a comprehensive global emission reduction agreement. Further, once a GTEIG is struck between countries, there would be no need to retain an offset for competitive loss in the Australian emissions trading scheme.

As noted, this type of sectoral approach was endorsed by the Garnaut Climate Change Review and has been considered by the International Energy Agency in a recent paper⁶.

The issue was also raised, by the Australian LNG industry, at a recent Asia-Pacific Economic Co-operation Energy Working Group Energy Trade and Investment Roundtable, held in Cairns from 30 September-2 October 2008⁷.

APPEA recommends more work to be done to identify and analyse potential international approaches that might progress the negotiations.

If you have any queries, please feel free to contact Damian Dwyer, Director, Energy Markets & Climate Change, via telephone on 6247 0960 or e-mail at ddwyer@appea.com.au.

Yours sincerely



Belinda Robinson
CHIEF EXECUTIVE

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⁶ Richard Baron et al, "Sectoral Approaches to Greenhouse Gas Mitigation: Exploring Issues for Heavy Industry", *IEA Information Paper*, International Energy Agency, Paris, France, November 2007 (available at www.iea.org/Textbase/publications/free_new_Desc.asp?PUBS_ID=2000). Cooperative sectoral approaches to reducing emissions were discussed at the recent UNFCCC workshop in Accra, Ghana during the UNFCCC Working Group sessions on 21-27 August 2008.

⁷ See www.tmm.com.au/whats-coming-up/details/11-APEC_Roundtable.html for further information.