



AUSTRALIAN PETROLEUM PRODUCTION & EXPLORATION  
ASSOCIATION LIMITED

# **GREENHOUSE RESPONSE STRATEGY**

*COMMITMENTS OF THE UPSTREAM OIL AND GAS  
INDUSTRY*

*PUBLIC POLICY RESPONSE: A GOVERNMENT/INDUSTRY  
PARTNERSHIP*

## **APPEA GREENHOUSE RESPONSE STRATEGY**

APPEA, and its members, are committed to working towards a profitable, safe, environmentally responsible and socially responsible oil and gas exploration, development and production industry. As a part of this, APPEA wants to work with governments to achieve credible industry actions and governmental greenhouse policies that address greenhouse concerns in an economically and commercially viable way.

The Council of Australian Governments (COAG) recognises in its energy policy of 8 June 2001 that Australia will be dependent on fossil fuels to meet its energy needs for the foreseeable future.

It should be noted that gas as a fuel, particularly in power generation, can create improved emissions outcomes in Australia and that LNG exports can contribute to an improved global outcome. In that context, APPEA supports the removal of regulatory impediments to the increased use of gas.

In addition to commitments by the upstream oil and gas industry, APPEA is seeking to develop a public policy response that meets the needs of State and Commonwealth governments and fits within the following three components:

- immediate actions;
- medium term responses; and
- longer term policy principles.

### ***COMMITMENTS OF THE UPSTREAM OIL AND GAS INDUSTRY***

APPEA members:

- will continue to create and take opportunities for economic emission abatement and sequestration;
- are committed to continuous improvement in relation to both emission abatement and sequestration as new technology becomes commercial;
- support the Greenhouse Challenge Program to promote further emission abatement;
- will examine all commercially practicable options for improved energy efficiency;
- continue to work with customers to promote the efficient use of products; and
- are financing and participating in research and development into the geological disposal of CO<sub>2</sub> and will consider other opportunities for R&D into sequestration and emission abatement.

APPEA is ready to input into modeling work on greenhouse projections and to participate in dialogue as government develops policy to ensure that APPEA is part of the debate process and can help influence a least cost outcome for the industry and its major customers.

APPEA will take opportunities to brief all stakeholders, including environmental NGOs, on APPEA's position on greenhouse abatement.

### ***PUBLIC POLICY RESPONSE: A GOVERNMENT/INDUSTRY PARTNERSHIP***

#### ***Immediate Actions***

APPEA believes all governments in Australia should adopt a nationally coordinated approach to greenhouse policies. State governments should not introduce policies and mechanisms inconsistent with a national approach. APPEA welcomes the commitment by State and Territory government leaders on 29 August 2003 to working with the Federal Government to achieve a national approach to this important issue.

Governments need to continue to recognise that greenhouse policies must allow Australian industry to maintain its international competitiveness. APPEA will work with government to develop ways to maintain international competitiveness in keeping with the Commonwealth Government's commitments to industry, including the LNG Action Agenda. In this regard, the Government should

take into consideration international developments and their implications for Australia in its policy formulation.

The impact of greenhouse policies on the industry's customers needs to be recognised as a critical test of the appropriateness of greenhouse policies. In addition, the commitment by the Commonwealth Government on No Disadvantage for Early Movers is essential in maintaining Australia's international competitiveness and keeping Australia attractive to investment.

#### ***Medium Term Responses***

In the policy framework formulated by the Australian government, APPEA supports and advocates a four-point program for joint government/industry action to deliver a national approach to greenhouse gas emissions management which extends into the next decade and beyond. Technology alone will not provide the solution to long term reductions in emissions levels. APPEA will work with governments on other initiatives which reduce emissions cost effectively and maintain Australia's export competitiveness.

- The Association would argue that all initiatives proposed for inclusion in such a program must be exposed to a robust, independent assessment of their costs, community impacts and benefits before they are pursued.

APPEA supports the following 'foundation set' of four policy thrusts to facilitate the current and forward strategies for greenhouse gas management in Australia. The four key strategies are:

- 1) support for continued pursuit by Australia of an *international negotiation process* that meets the needs of Australia and also sets a path forward for comprehensive global action;
- 2) implementation of an *enhanced greenhouse impacts modeling program* directed at giving better information on climate impacts (variable, intensity, variability, timing, location);
- 3) implementation of a *mandatory national emissions reporting and verification system*;
- 4) development by Australia of a flexible portfolio of *emission abatement actions* incorporating:
  - a. the retention and enhancement of some existing programs;
  - b. a national end use efficiency program;
  - c. consideration of the development of appropriate administrative mechanisms or processes directed at giving industry greater certainty about greenhouse outcomes; and
  - d. a strategy for the development and adoption of commercially viable low emission technologies.

Effectively:

- strategy 1 sets the long term policy context within which a flexible national approach will need to evolve. This would be progressively refined over time, e.g. as the role of the Kyoto Protocol became clearer and a better understanding is gained on (but to clarify this context we need to know whether Russia will ratify Kyoto and know how the post 2012 treaty negotiations, which commence in 2005, might evolve);
- strategies 2 and 3 will deliver an adequate factual data base to allow company and national responses to be properly formulated; and
- strategy 4 is an actions package.

An alternative way of viewing the strategies 2-4 is that:

- strategy 2 is about adaptation; and
- strategy 3 and 4 are about emission abatement.

#### **Strategy 1: The International Commitment**

Climate change is a global issue and requires comprehensive global agreement if it is to be effectively addressed. Development of effective international arrangements (whether multilateral or of another kind) must be a central part of any national policy approach. Where appropriate, Australia should continue to pursue bi-lateral and pluri-lateral agreements, particularly in relation to RD&D. APPEA (and/or its member companies) will participate in activities under international agreements, including:

- geo-sequestration work under the Bilateral Agreement with the USA;

- policy and technical work as part of the Carbon Sequestration Leadership Forum (for example a substantial body of work will be done over the next six to twelve months on global regulation of geo-sequestration);
- the promotion of natural gas as apart of the APEC energy work (helping us to develop LNG market opportunities); and
- promotion of zero emission technologies by international agencies such as the International Energy Agency and the World Bank.

The development of effective international arrangements should be aimed at achieving the least-cost outcome for Australia and the global community. Above all, it is the reduction in net global emissions of greenhouse gases that is important and international agreements should reflect this.

#### Strategy 2: The Adaptation Commitment - Enhanced Greenhouse Impacts Modeling Program

Once adequate location specific data on potential impacts of climate variability are available, APPEA member companies will, as appropriate, review (and if necessary adapt) their risk management strategies (encompassing engineering design, safety and environmental assessments) to reflect new learnings on the likely impacts of climate variability). Government will also need to complement industry action by developing risk management strategies in areas such as health care, water supply, emergency services and suitable developments in coastal areas and on flood plains. This sort of action planning should give the community greater confidence about how the greenhouse issue is being addressed.

#### Strategy 3: Mandatory Emissions Reporting

A mandatory national emissions reporting and verification system should be developed. The methodologies and tools for this should be consistent with the Greenhouse Challenge Program objectives and internationally recognised emission estimation methodologies. This would be applicable to all organisations/facilities emitting over an agreed threshold. A lower threshold could potentially be phased in over time.

Without an adequate emissions database/emissions inventory, companies cannot calculate the likely impact of particular policies on their bottom line and government can't adequately develop well targeted and effective policies. Both government and industry get better information on the cost and difficulties of assembling credible data that will meet commercial and policy integrity requirements.

#### Strategy 4: The Development of a National Portfolio of Emission Abatement Actions

(a): The Australian Government must act to ensure efficient continuation of a number of existing programs to encourage industry and government instrumentalities to continue to take all commercially practicable measures to abate emissions. The continuation of these programs is essential, particularly in meeting the 108 percent objective, but also in laying the foundation for two of the other vital elements of the Abatement Package proposed by APPEA, namely administrative mechanisms or processes and a comprehensive national end-use efficiency program designed to achieve a cost-effective, world-class approach to efficient energy use.

The key programs/policy areas for APPEA include:

- the Greenhouse Challenge Program - APPEA is committed to continuing to be an active participant in this program;
- removal of regulatory impediments to the greater use of gas in the national energy market – including via cogeneration and distributed energy uses; and
- investment incentives, such as an enhanced version of the Greenhouse Gas Abatement Program (GGAP).

It must also be recognised that there must be an equitable share of the abatement across the economy and not merely targeted at any particular industry. As such, continuation of programs targeted at end use efficiency and land use measures, including cessation of land clearance, constraint of urban sprawl and re-vegetation programs, are an integral component of the portfolio of abatement actions.

- (b): An end-use efficiency program would focus on efficiency on both the demand and supply side. In particular, it would require a strong focus on use at the household and small business level. Further, it would need to look at appropriate cogeneration and distributed energy technologies. In many instances, outcomes may best be achieved through investment incentives. While there is a requirement for new programs to address end-use efficiency, there are a number of programs that are already in operation, but these would need to be expanded. These include:
- enhanced building codes; and
  - an energy efficiency labeling programs.
- (c): Taking into account relevant global experience, consider a range of appropriate and flexible administrative mechanisms or processes to encourage additional cost effective reductions in greenhouse gas emissions. Such programs should be consistent with commitments given to industry in the LNG Action Agenda. They should give both industry and government greater certainty about greenhouse outcomes and allow governments to commit to 'no disadvantage' for early movers in greenhouse emission abatement. The mechanisms or processes should be designed to encourage industry to employ new approaches, both technical and commercial, which result in reduced emissions.
- (d): A national medium to long term technology strategy for the development and adoption of commercially viable low emission or greenhouse mitigation technologies is a critical element of the approach industry proposes. Such a strategy should take account of research and development activities being pursued by Australian operating companies in a global context. Research funded by industry and government might include:
- geo-sequestration of carbon dioxide (underway via CO2CRC);
  - development of distributed energy technologies based on gas and also the development of technologies to allow their effective incorporation into the national grid;
  - use of high efficiency combined cycle turbines;
  - developing efficient end-use gas based technologies (e.g. gas fueled air conditioning);
  - further development of fuel cell technology;
  - implementing outcomes of the national hydrogen study;
  - research into more efficient and cost effective pipeline construction technologies, gas processing and industrial processes; and
  - testing by industry of the commercial practicality of developing electricity generation based on hot dry rocks, which depend on petroleum industry related technology.

APPEA would argue that Australia should not seek to be the world leader in all of these areas. Rather, it should pursue a series of specific international bilateral and multilateral technology agreements where there are discernible benefits to all parties. Government needs to be careful to avoid trying to "pick winners" and should instead concentrate on setting the right policy framework to facilitate scientific and technological innovation and eliminate barriers to the adoption of suitable, commercially viable technologies. Research and development into abatement technologies should be encouraged through funding and fiscal incentives and supported through policy. The pursuit of global corporate partnerships potentially offers benefits in this regard (for example, to allow Australian researchers to tap into the development of components for hybrid cars or fuel cell technology).

#### ***Longer Term Policy Principles***

APPEA believes that immediate and medium term responses should be flexible, least cost and consistent with development in the longer term of policies and measures which:

- will ensure efficient and effective market operations nationally and globally; and
- maintain the international competitiveness of trade exposed industries.