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8 April 2009

Committee Secretary
Senate Select Committee on Climate Policy
PO Box 6100
Parliament House
Canberra ACT 2600

Subject: Submission on the Carbon Pollution Reduction Scheme to the Senate Select Committee on Climate Policy

ConocoPhillips operates the LNG Plant in Darwin, Northern Territory. This Plant is one of only two facilities in Australia, with the other being the North West Shelf facility in Western Australia's Pilbara region.

ConocoPhillips strongly supports the various submissions made by the Australian Petroleum and Production Association (APPEA), both in so far as the APPEA submissions support aspects of the Green Paper, White Paper and Draft Legislation and also in relation to the concerns raised about the potential detrimental impact of the scheme on trade exposed industries, such as the Australian Liquefied Natural Gas (LNG) industry.

One of the main concerns with the CPRS in its current form relates to structure of the Scheme – which has the potential to burden the Australian LNG industry with additional costs that are not similarly placed on our international competitors. The result of this may well be an adverse impact on investment in Australian LNG. This means:

- constraints on our LNG production, both present and future;
- the potential reduction of Australian LNG Exports and consequential loss of jobs, investment and reputation;
- the likelihood that the customers will look to sources of LNG from other countries, or else turn to cheaper, but not as clean burning fuels, such as coal, to meet their energy
- the consequential increase, not decrease in global greenhouse gas emissions.

By way of illustration, in order to deliver a specified quantum of electrical energy from coal typically results in a multiple of the emissions over an LNG equivalent supply chain. Policies that thus restrict or limit present and potential future LNG production may increase global emissions.

Overall, ConocoPhillips supports the aspirations of the Carbon Pollution Reduction Scheme but believes that any action must:

- Provide long term certainty for investment decisions;
- Encourage development/deployment of innovative technology to mitigate emissions;
- Avoid placing a disproportionate burden on any one sector;
- Ensure early actions are not disadvantaged,
- Avoid undue harm to the economy; and

- Be part of a global emissions scheme.

Within that context we provide the following key comments on the CPRS:

- **CPRS Design** – In the absence of a global agreement, the international competitiveness of the Australian LNG industry will be adversely affected. The LNG industry is very capital intensive and so in this context revenue is not the most appropriate measure of cost impact. The setting of a 2.5% threshold is also extremely arbitrary. Such figures translate to close to 10% loss of after tax cash flow which is a more representative measure of the impact of the proposed system. Such a massive cost impost for little (if any) environmental gain cannot be borne by the Australian LNG industry in the absence of a similar impost on our competitors.
- **Timeline** – The design of any scheme must be properly structured and the implications of international competitiveness, loss of jobs and investment, and the potential increase in global emissions must be properly examined and considered. The White Paper sets out the objective of the scheme as meeting Australia's emissions reduction targets in the most flexible and cost effective way. The implications of the scheme must be properly considered and the consequences well understood and appreciated rather than being progressed according to a predetermined schedule, with unintended consequences or outcomes that are detrimental both to reducing global emissions or to Australia's LNG industry.
- **Regulations** - The Draft Legislation defers many key aspects to Regulations. We understand that such Regulations will be published after the key legislation goes to Parliament, thus making it impossible to consider and comment on the package as a whole. A further aspect making it difficult to comment on the whole package is the ongoing work on definitions, for example the definition applicable to the "LNG production" activity has not been finalised. The implications of the scheme, which on the face of it are already dire both to global emissions and to Australia's LNG Industry, cannot be properly evaluated in the absence of crucial components, thus creating further uncertainty.
- **West Arnhem Fire Management Agreement (WAFMA)** – The White Paper defers any discussion about savannah burning being used as a greenhouse gas credit. ConocoPhillips (through Darwin LNG) and the Northern Territory Government already have an agreement in place; WAFMA pursuant to which such a scheme is in operation (CO₂-e savings in 2007 of 180,000 tonnes). The CPRS must allow such savings to be credited. WAFMA has also been providing indigenous jobs since its inception. Both aspects, the greenhouse credits and support for indigenous jobs, would appear to be consistent with the Government's announcement on 20 March 2008 that \$10 million will be invested to support "carbon market opportunities arising from traditional fire management in Northern Australia".
- **JPDA/Sunrise** – Implications of the legislation extending to the JPDA and the Sunrise Project must be clearly understood, including potential costs borne by the Timor-Leste Government as a result of the scheme.
- **Climate Change Action Fund** – There is currently little information available to describe how the CCAF will work and ConocoPhillips encourages all concerned to make this available soonest so we can see the whole picture of the proposed CPRS.

These points are expanded in Attachment 1.

Further details on, or clarifications of, this submission can be obtained by contacting Mr Robin Antrobus Vice President External Relations on +61 8 9423 6679 or via email on robin.antrobus@conocophillips.com

If appropriate, I would be pleased to personally present our case directly face to face to the Senate Committee at the earliest mutually acceptable opportunity.

Yours sincerely



Joe Marushack
President