



3 February 2004
Our Ref: DRIMS#452437

Michael McLean
Secretary
Senate Environment, Communications, Information Technology and Arts
Legislation Committee
Parliament House
Canberra ACT 2600

Dear Mr McLean

Kyoto Protocol Ratification Bill 2003 [No. 2] (the "Bill")

Thank you for your letter dated 8 December 2003 and for the opportunity to comment on the Bill. If the Committee would like to discuss any of Woodside's comments we would be pleased to attend the hearing on 13 February 2003.

Woodside Energy is Australia's largest independent petroleum exploration and production company. It operates the North-West Shelf project which accounts for around 40% of total Australian petroleum production. Woodside also operates two oil projects in the north-west and plans are underway to develop new oil and gas projects in offshore areas of Western Australia, Victoria and the Northern Territory.

Woodside supports the 108% Kyoto target for Australia and is committed to playing its part to the achievement of that target and to reducing global greenhouse emissions through increased LNG exports. Woodside has been a member of the Greenhouse Challenge Program since 1997. Woodside operated projects have abatement actions either completed or planned which will reduce total greenhouse emissions by 40 million tonnes of CO₂e over the period 2002-2022 (at a cost \$195 million over 20 years). In addition, Woodside has also invested \$50 million in sustainable and renewable energy technologies through its subsidiary company Metasource Pty Ltd.

Since 1996, emissions per tonne of production from Woodside operated projects have declined by more than 50%. Two of the abatement initiatives (avoiding 730,000 tonnes of CO₂e per annum) have won Institution of Engineers Australia/Australian Greenhouse Office awards for greenhouse abatement initiatives. The 4th LNG train, under construction on the North West Shelf project, will be 30% more greenhouse efficient than the existing LNG trains built in the early 1990s.

The much publicised NWS contract with China will help that country reduce its growth in greenhouse emissions and improve its air quality. However, Australia has enough gas to support many more such export contracts as well as a major expansion of Australian gas consumption. By substituting for other more carbon intensive fuels, Australia's gas resources have the potential to deliver very large greenhouse benefits for Australia and the world.

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As an active contributor to discussions about greenhouse policy and as a company which is taking on-the-ground abatement action, Woodside cannot support this Bill. The Kyoto Protocol will not deliver an effective environmental outcome (reducing global emissions by less than 3%) and is flawed because it will not engage developing nations or the United States in emissions reduction. Australian trade-exposed, energy intensive industries would suffer competitive disadvantage from developing nations without emission targets under the Protocol and from the US which has elected to not ratify the Protocol. Competitors in these nations attract no additional production costs imposed by their governments to achieve compliance. This competitive disadvantage is illustrated clearly by the LNG export industry, in which almost all of Australia's competitors for new contracts are located in non-Annex B countries in Asia and the Middle East.

Additionally, relative to other fossil fuels such as coal and oil, LNG has low lifecycle emissions but high production emissions, due to the energy required to cool and liquefy the gas for transport overseas. Under the Kyoto Protocol, LNG contributes to Australia's emissions inventory but reduces our customer's national inventories to the extent it replaces other fossil fuels. As Kyoto considers each country in isolation, it penalises Australia for producing LNG, most of which is used to lower emissions in other developed countries. That is, Kyoto takes no account of global benefits of cleaner fuels or more efficient production.

While the latest projections are for Australia to meet its 108% target, in a ratification scenario where Australia was out of compliance (due to above baseline development between now and 2008 or other reasons), Kyoto ratification would expose Australian industry to both competitive disadvantage and the perverse outcome associated with the transboundary movements of cleaner fuels.

The key issue for Australia is to implement a set of policies and measures that guarantee a comprehensive (over sectors and sources), cost-effective and long term reduction of greenhouse emissions. Despite not ratifying the Kyoto Protocol, Australia is well placed to meet its 108% Kyoto target from actual and planned measures to reduce emissions, particularly if the agreement on land clearing in Queensland is finalised. If these projections become reality there is little point in Australia ratifying the Protocol, it will make little difference to the entry-into-force of the Protocol and will expose Australia to a difficult and expensive compliance regime. Importantly, it signals agreement with the Kyoto methodology; absolute tonnes targets, developing country exclusion from targets despite increasing shares of global emissions and a penalty driven compliance regime. Developing nations have stated at the Conference of the Parties meetings that they will not consider targets within the next twenty years.

Signalling agreement with the Kyoto process potentially locks Australia into a target setting process over which it has little control. Negotiations for the United Nations Framework Convention on Climate Change (UNFCCC) process after Kyoto begin in 2005 and a renegotiation of targets would most likely see a much harder target for Australia without the recognition of our particular national circumstances that occurred in 1997 and delivered the more appropriate 108% of 1990 emissions target.

There are advocates of ratification who claim that jobs and investment will flow from Kyoto ratification and that firms will be able to participate in emissions trading, CDM and JI projects. This argument is only true to the extent that credit investments inside Australia will result in cheaper 'credits' when compared with other sources of ERU's, AAU's or RMUs

globally, particularly when Russian and Eastern European 'hot air' credits are considered. Additionally, with Australia meeting its Kyoto target there is little logic for the case that investments in credit generating assets and jobs will be driven by Australian companies before the end of the Kyoto compliance period (because of the short-term expectation of no carbon impost). The Government devoting effort and resources to give a degree of certainty about Australia's longer term (beyond 2012) policies and measures to reduce greenhouse emissions (to meet the Intergovernmental Panel on Climate Change's objective of 60% reduction on 1990 emissions by 2100) would do considerably more to promote investment and jobs in the renewable energy sector than ratifying the Protocol.

Other commentators have raised the issue of access to the Kyoto Flexibility Mechanisms. In this matter, there is a strong expectation that Australian companies can still access the Kyoto mechanisms with ease on the 'buy' side and slightly more complexity on the 'sell' side, thus ratification does not appear to be necessary for eventual access to the market in Kyoto mechanisms.

Of more importance is the necessity to do a cost/benefit analysis prior to ratification. Does the limited benefit in investment and jobs outweigh the longer term loss that might be suffered by acceding to a regime that does not impose the same emissions costs on competitors as it does on Australian companies. This is particularly true for trade-exposed, energy intensive industries (both exporters and import-competing) that currently make up 12% of Australia's GDP and 60% of the value of its exports.

Ratification of the Kyoto Protocol is an inappropriate instrument to use for emission reduction in Australia. Greenhouse abatement could be achieved in more cost and environmentally effective ways by comprehensively applying measures across all sources and sectors of the Australian economy, by pursuing technology solutions that fit in with the capital stock turnover cycles of major emitting trade-exposed industry, by enhancing the role of Natural Gas, renewable energy and energy efficiency in Australia's medium term energy frameworks and by joining with other nations in bilateral agreements such as the US-Australia Climate Action program and the Carbon Sequestration Leadership Program. This will position Australia to contribute to global greenhouse reductions during both the Kyoto period and beyond. Maintaining flexibility in how Australia reduces greenhouse emissions will allow the Government to maintain the security of Australia's energy supply and of its trade exposed industries.

The Australian Government agreed in the LNG Action Agenda 2000, to protect the competitiveness of the LNG industry and to ensure "no-disadvantage" to early movers and new industry entrants. The LNG Action Agenda principles have been adopted by all tiers of government and applied to all industries in Australia. These commitments recognise that LNG is part of the global solution to the greenhouse issue whether viewed as a clean alternative to coal and oil or as a transition fuel to the hydrogen economy.

In the LNG Action Agenda the Government agreed to only implement a mandatory domestic emissions trading scheme if the Kyoto Protocol is ratified by Australia and enters into force, and there is an established international emissions trading scheme. While those conditions have not yet been met, a number of companies have been or are considering internal trading to build capability for the future and do their fair share of emission abatement. While another example of a pro-active industry approach, a liquid international market for trading carbon

credits does not yet exist and it is likely that any premature mandatory scheme would result in high costs to industry with a consequent loss of competitiveness

The priority must be to develop a Commonwealth greenhouse framework drawing on the outcomes of the Business-Government Dialogue to deliver low cost abatement nationally. In particular we emphasise the following outcomes:

1. Government needs to determine its post-2012 Kyoto negotiation strategy by the end of 2004 and in doing so must continue to consult with industry.
2. Australia should seek opportunities for bilateral agreements with developed and developing nations that facilitate trade or technology solutions to lowering greenhouse emissions.
3. The Greenhouse Challenge program should be compulsory for larger companies with an opt-in provision for smaller companies. Participation and extension of the Greenhouse Challenge program should be considered to allow for the differing abatement strategies of different industries and companies and to introduce some certainty into future greenhouse emission reduction obligations.
4. Research and development should be promoted by fiscal measures such as a increased tax deduction for abatement R&D and by publicly funding demonstration plants for new technology.
5. Industry should be engaged early to assist in formulating strategies for adaptation.
6. A national approach needs to be agreed with the States, to avoid inefficient outcomes from separate State Government greenhouse policies and initiatives. There is a need for a consultative, collaborative and transparent approach to policy development.

While there may be benefits in investment and jobs in ratification, Woodside believes that insufficient knowledge is available about the costs of ratification. In particular the consequences of a long term accession to a treaty that has little hope of even medium-term inclusion of major trade competitors, exposure to significantly harder targets without regard for global benefit of our products or our particular national circumstances and may result in a loss of jobs and investment as the competitive cost structure of our trade-exposed industries is significantly eroded. Woodside would rather see effort and resources directed away from an environmentally and economically ineffective international treaty into implementing the best mix of policies and measures that position Australia on a sustainable downward greenhouse emissions reduction trajectory.

Although Woodside does not support the Bill as read, we have nevertheless included some comments on the drafting which you may like to consider before presenting it to the Senate. Please do not hesitate to contact me or our Greenhouse Opportunity Manager, Mr Steve Waller, if you would like to discuss any of Woodside's comments further.

Yours faithfully
WOODSIDE ENERGY LTD.



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Attachment "A"

Drafting comments on Kyoto Protocol Ratification Bill 2003

Section	Comment
3.	The Bill does not "enable" Australia to meet its international commitments but merely introduces those commitments into domestic law.
4.	Need a definition of "Parties" used in section 10(1)(a). Suggest "means the parties to the Protocol"
8.	Replace the words "first commitment period, from 2008 to 2012" with the defined term "Commitment Period". It is incorrect to refer to the "first commitment period" as there is presently only one commitment period. Also, should the word "inscribed" be "prescribed"?
10	The trading scheme described appears to only anticipate the international transfer of emission reduction units (ERU's). If a trading system is introduced then Woodside does not see any reason why it should be limited to one time of carbon credit. Woodside suggests that the scheme apply to assigned amount units and certified emission reduction units as well.
New	Suggest including an interpretation provision which states that terms not otherwise defined have the same meaning as they do in the Protocol. This will cover terms such as "emission reduction unit".