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25 March 2009

The Secretary  
Senate Standing Committee on Economics  
PO Box 6100  
Parliament House  
CANBERRA ACT 2600

Email: [economics.sen@aph.gov.au](mailto:economics.sen@aph.gov.au)

Dear Secretary

## **EXPOSURE DRAFT OF THE LEGISLATION TO IMPLEMENT THE CARBON POLLUTION REDUCTION SCHEME (CPRS)**

### **Introduction**

Woodside submits that the Exposure Draft Carbon Pollution Reduction Scheme Bill 2009 (the Bill) fails to reflect the Australian Government's policy intent on the ground that there is an inconsistency between the objects of the Bill and the treatment of Liquefied Natural Gas (LNG).

Woodside understands that under the Bill its Australian pipeline gas and oil production assets are likely to be fully exposed to the scheme.

### **Objects of the Legislation**

The CPRS White Paper states in the opening pages:

*The Government is implementing a comprehensive strategy for tackling climate change in Australia. The strategy is built on three pillars: reducing Australia's carbon pollution; adapting to unavoidable climate change; and helping to shape a global solution to climate change.*

and...

*In delivering the Carbon Pollution Reduction Scheme, the Government has sought to get the balance right: to secure jobs today while at the same time moving to the low pollution economy that will deliver growth and the jobs of the future.<sup>1</sup>*

Pursuant to s3 Objects in the Bill:

*(3) The second object of [the] Act is to support the development of an effective global response to climate change.*

Australia's LNG industry is a key part of the global solution to climate change. LNG is a unique source of energy; more emissions efficient than all other fossil fuels and able to contribute directly to the global reduction of greenhouse gas emissions.

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<sup>1</sup> Carbon Pollution Reduction Scheme Australia's Low Pollution Future White Paper Volume 1 December 2008, Executive Summary, page xvi

For every tonne of carbon dioxide emitted in the production of LNG in Australia, at least four tonnes of carbon dioxide emissions in customer countries are avoided when LNG is used to displace coal-fired power generation. This is even greater in China where the impact of displacing coal with LNG for power generation ranges between 5.5 and 9.5 tonnes.<sup>2</sup>

Also under s3:

(4) *The third object of [the] Act is:*

- (a) *to take action directed towards meeting Australia's targets...*
- (b) *...in a flexible and cost effective way.*

The Australian LNG industry is positioned to provide a stimulus to Australia's economy and to help reduce global greenhouse gas emissions. However, the CPRS will increase the costs of developing LNG projects in Australia by imposing costs that our overseas competitors do not face, placing us at a distinct disadvantage.

The most immediate and significant impact of increasing costs to develop LNG in Australia is that it will threaten the industry's competitiveness, particularly in these difficult economic times. This will invariably lead to a loss of industry investment for no environmental gain – affecting Australian jobs, Australia's economy and potentially increasing global emissions.

This is neither "*an effective global response to climate change*" nor is it undertaking the reduction of carbon pollution in a "*flexible and cost effective*" way. It would also be at odds with comments made by the Prime Minister prior to the 2007 election when he outlined Labor's action agenda for climate change and stated:

*"In taking the lead before an effective international agreement is in place, it is also vitally important that a domestic scheme does not undermine Australia's competitiveness and provides mechanisms to ensure that Australian operations of energy-intensive trade-exposed firms are not disadvantaged."*<sup>3</sup>

Following the release of the CPRS Green Paper, the Australian Petroleum Production & Exploration Association (APPEA) commissioned independent economic analysis by Concept Economics of the impact on Australia's LNG growth potential of a domestic emissions trading scheme operating in the absence of a broad global scheme. The work draws on an Access Economics model and considers three scenarios.<sup>4</sup>

The work demonstrates "*where Australia unilaterally commits to a reduction in greenhouse gas emissions of 20 per cent on 2000 levels by 2020 (on the way to a reduction of 60 per cent by 2050), the impact on LNG is severe, with output in the industry falling by more than 37 per cent in 2020 and more than 54 per cent in 2030 compared to what it otherwise would have done. In a scenario where emissions in 2020 are the same as those in 2000 (on the way to a reduction of 60 per cent by 2050), LNG output falls by 16 per cent in 2020 and more than 34 per cent compared to what it otherwise would have done.*"<sup>5</sup>

Further independent modelling by Concept Economics for the Senate Select Committee on Fuel and Energy provided peer review of Treasury modelling of the economic impacts of reducing emissions. This work indicates that even with a 60% level of permit allocation, "*output of the Australian LNG industry would still be between 16 and 37% below the reference case level in 2020 and between 39 and 54% down on what it would otherwise be by 2030*".<sup>6</sup> If growth in the industry is constrained, potential exports of Australian natural gas will be replaced by LNG from other countries and, worse still, higher-emitting fossil fuels such as coal.

Final investment decisions for several new Australian LNG projects are anticipated in the next five years, followed by production around three to five years later and pay-back in the range of seven to ten years after that. By the time production from these projects is expected to come on stream (in 2015-2020) Treasury modelling has predicted carbon prices in the range of \$20-\$50 (in 2010 terms) per tonne of carbon dioxide equivalent. The uncertainty of the carbon price combined with the level and continuity of Emissions Intensive

<sup>2</sup> CSIRO: *Lifecycle Emissions and Energy Analysis* 1996 and Worley Parsons: *Greenhouse Gas Emissions Study of Australian LNG*

<sup>3</sup> Federal Labor Leader Kevin Rudd MP: *An Action Agenda for Climate Change*, Annual Fraser Lecture, Belconnen Labor Club, 30 May 2007

<sup>4</sup> *The Concept Economics Report, Estimated Impacts of the Proposed Domestic Emissions Trading Scheme on the Oil And Gas Industry*, 23 September 2008

<sup>5</sup> *Review of the Carbon Pollution Reduction Scheme White Paper, APPEA Comments* February 2009

<sup>6</sup> Dr Brian Fisher, Concept Economics: *A Peer Review of the Treasury Modelling of the Economic Impacts of Reducing Emissions*, prepared for Senate Select Committee on Fuel and Energy, January 30 2009

Trade Exposed (EITE) assistance post 2020 pose significant risks for the expansion of Australia's LNG industry.

We are aware that the Committee has explored concepts such as "capacity to pay" based on profit statements and share price, as a factor in permit allocation under the CPRS. Share price represents a perception of a company's value by the market, based on its assets and a range of other market factors. Of itself, it does not signal that a company can or cannot absorb major new cost imposts. Annual profit results reflect past activity which is not necessarily a predictor of current or future financial position. By way of example, a reference to Woodside's share price or profit results alone does not reflect that Woodside is reinvesting a significant portion of its recent profits back into developments in Australia – such as in the (A\$12 billion) Pluto LNG Development.

Despite some suggestions to the contrary, LNG projects cannot absorb the expected cost of emissions permits, nor deal with uncertainty in permit price. LNG projects have long gestation and pay-back periods, require substantial up-front investment and need to be supported by long-term supply contracts with major overseas customers, usually exceeding fifteen to twenty years. Woodside is a price-taker in the global LNG market – the renegotiation of existing contracts to absorb a carbon price is not an option.<sup>7</sup>

### Conclusion

Woodside supports statutory expression of a policy framework to reduce carbon emissions that is:

- a genuinely effective global response;
- economically responsible;
- not disadvantageous to Australian LNG exports; and
- in Australia's long-term interests.

In order to meet these objectives, CPRS legislation needs, as a minimum, to ensure a level playing field for Australia's LNG industry against an international market unlikely to impose carbon costs any time soon.

To achieve the policy intent of an effective global response to climate change that will deliver growth and jobs, a range of measures could be undertaken to achieve a no net cost outcome for Australia's LNG industry. This could include full allocation of permits for Australia's natural gas exports until competitor countries impose similar carbon costs; and removal of the 1.3% annual reduction in permit allocations.

As the Minerals Council of Australia (MCA) recently noted, Australian businesses will face the highest carbon costs in the world. According to MCA commissioned research, *"between 2010 and 2014, the carbon costs faced by an average Australian firm will be 18 times higher than its counterpart in the EU."*<sup>8</sup>

The MCA has also shown that *"an average Australian firm emitting 1 million tonnes of CO<sub>2</sub> per annum will face carbon costs of \$111 million over the 4 years 2010-2014. Over the same period, an EU firm with the same emissions profile will pay less than \$6 million."*<sup>9</sup>

Woodside supports a global reduction in greenhouse gas emissions but not at a cost to the Australian LNG industry and Australian jobs.

Please contact me if I can be of further assistance to the Committee.

Yours sincerely



**Don Voelte**  
Managing Director and CEO

<sup>7</sup> Carbon Pollution Reduction Scheme Green Paper Submission, Woodside Energy Ltd, September 2008

<sup>8</sup> Opinion Piece: Brendan Pearson Deputy Chief Executive Minerals Council of Australia, published in The Australian 8 January 2008

<sup>9</sup> Minerals Council of Australia: Backgrounder on Emissions Trading Global Trend Favours Phased Approach to Auctioning of Permits, December 2008