ConocoPhillips

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4 June 2009

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

Sent via email: economics.sen@aph.gov.au

Re: Senate Standing Committee on Economics Inquiry into Carbon Pollution Reduction Scheme Bill 2009

ConocoPhillips operates the Liquefied Natural Gas (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 made a submission to the Senate Standing Committee on Economics on the Draft legislation and this submission can be found at the following link:- http://www.aph.gov.au/senate/committee/economics_ctte/cprs_09/submissions/sub68.pdf. This current submission therefore focuses on key differences identified between the Draft and currently proposed legislation and such comments are made in the context of our previous submission, and our other submissions made to the various senate inquiries, details of which can be found on the Senate website.

ConocoPhillips strongly supports the intent of the Carbon Pollution Reduction Scheme and fully 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, Draft Legislation and Amended 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 LNG industry.

ConocoPhillips makes the following more specific comments to this current Senate Inquiry.

1. Carbon Pollution Reduction Scheme Bill 2009

All our submissions regarding the CPRS have noted the potential detrimental impact of the CPRS on the Australian LNG industry as an EITE Activity. The following key concerns have been consistently noted:

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

These potential outcomes are contrary to the policy of the Labour Party expressed in the lead up to the election, including to:

- Ensure that Australia's international competitiveness is not compromised by the introduction of emissions trading.

- Consult with industry about the potential impact of emissions trading on their operations to ensure they are not disadvantaged.
- Establish specific mechanisms to ensure that Australian operations of emissions intensive trade exposed firms are not disadvantaged by emissions trading

These undesired outcomes reflect the very concerns that the policy expressly recognised as imperative to avoid, when the policy noted that:

- the transition to a more carbon constrained economy has the potential to disadvantage emissions intensive trade exposed industries; and that
- there is no global environmental benefit to simply shutting down LNG plants or aluminium smelters in Australia only to have new plants open up in other countries which may have inferior environmental protection standards and higher emission intensities"

(Refer: http://www.alp.org.au/download/now/071122_labors_plan_for_a_stronger_resources_sector222_xx.pdf)

The design of the CPRS did not meet these fundamental criteria. The Amended Draft Legislation still fails to meet these criteria.

In the context of no global agreement, the CPRS, including the proposed amendments, will still adversely affect the international competitiveness of Australian industries which are trade exposed, including the LNG industry.

The White Paper notes that business "can afford" 2.5% loss of revenue., This arbitrary figure is premised on the "eligibility" criteria for 60% (now 66%) assistance being 1000 tonnes CO2-e/$million revenue, and assuming a CO2-e permit cost of $25. It should be noted that 60% and 66% are "industry average" and so even 66% could actually mean closer to 30% assistance for a particular project. Regardless of the figure, the fundamental premise is flawed, in that by imposing additional costs on Australian LNG that are not faced by our International competitors, the competiveness of Australian LNG to compete in international markets is impacted.

The LNG industry is very capital intensive. Revenue is not a true reflection of profitability and is therefore not the most appropriate measure of economic impact. Investments in the LNG industry are typically made over a 20 to 40 year plus lifetime, and so the $10 cap introduced for the first year of the scheme makes little difference to the original draft scheme.

The arbitrariness of 2.5% loss of revenue was demonstrated when the eligibility criteria were significantly reduced between publication of the Green Paper and publication of the White Paper.

The criteria were also called into question by the Government itself considering and implementing a value-add "option" after release of the Green Paper. The value-add concept (as proposed with its own arbitrary threshold) also does not represent a true value of doing business; hence it made little difference to many trade exposed industries, like the LNG industry.

The use of recent commodity prices in the assessment for assistance is also fundamentally flawed when one looks at the historical oil price, to which LNG prices are linked – for example refer to http://www.wtrg.com/prices.htm. Put simply this means that the basis for the revenue calculation required by the assistance guidance paper is likely to be distorted and as a result is out by a factor of approximately two to three when one looks at a broader range of historical oil prices. This is further explained in our submission to the Senate Committee on Climate Policy which is available at http://www.aph.gov.au/senate/committee/climate_ctte/submissions/sub376.pdf http://www.aph.gov.au/senate/committee/climate_ctte/submissions/sub376a.pdf and the presentation to the Senate in the Brisbane hearings, details of which are available at http://www.aph.gov.au/hansard/senate/commttee/S11987.pdf (refer page CP97 onwards).

If a more appropriate assessment of commodity prices were used in assessing the assistance package then the LNG industry would be obtaining 94.5% assistance under the current scheme. The arbitrariness of the thresholds for assistance is therefore called into question at all steps along the way to date and addressing this current failure would be a relatively straightforward fix.

The CPRS represents such a large economic reform. The time should therefore be taken to conduct proper due diligence and genuine consultation to ensure the Scheme's efficacy and that it meets the criteria laid out by the Government. A time delay of one year, as proposed in the amendments is not in and of itself a solution. The flaws in the scheme are design based, not time based.

We therefore support making the scheme right and if this process to make it right takes several months (for example to the end of the year into Q1 2010 – refer Item 3 below) then that time should be taken to make it right.

The following expands on some of the more detailed aspects of the Amended Draft Legislation.

2. Decay in Assistance

We reiterate our concerns that the 1.3% decay in assistance further disadvantages the LNG industry and fails to meet the criteria of no impact on international competitiveness.

3. Timeline

We reiterate our previous concerns about the timeline. As noted above, the effort should be taken to ensure the design of the CPRS is correct, rather than pushing to meet a predetermined schedule. The Amended Draft legislation does not address the fundamental concerns of industry related to international competitiveness (and as recognised by the Government).

The timeline itself is not the issue and is achievable if all parties work together to address the fundamental flaws. ConocoPhillips is certainly ready and available to do what is required in this context. This will assist Australia's discussions at Copenhagen and provide business certainty.

4. Regulations

We reiterate our concerns that many key aspects are left to Regulations and believe that these should be developed between now and the end of the year (refer previous point) so that the whole package can be understood by all parties and passed by the end of the year.

5. JPDA/Sunrise

Related to the previous point we reiterate our concerns that the implications of the CPRS on Timor Leste are relegated to Regulations but must be more fully understood. We would be more than happy to work with all relevant parties in order to do our part in facilitating such dialogue.

6. WAFMA

We reiterate our concerns that the West Arnhem Fire Management Agreement (WAFMA) Project (i.e. savannah burning) must be included as an eligible offset from the start of the scheme.

7. Climate Change Action Fund (CCAF)

We reiterate our concerns that little information is available about the CCAF as a means by which we might be able to fund greenhouse gas reduction opportunities.

8. Carbon Pollution Reduction Scheme (Consequential Amendments) Bill 2009

We fully support all endeavours to rationalise all Commonwealth and State/Territory Legislation such as the CPRS, Energy Efficiency Opportunities, National Greenhouse and Energy Reporting System, etc.

Conclusion

ConocoPhillips has made its position clear with respect to greenhouse gas emissions and has implemented many innovative ways to reduce/offset emissions without legislation. ConocoPhillips supports the intention of the CPRS. However, as a minimum, the CPRS should consider and take account of, the following USCAP principles and recommendations, namely to:

- Account for the global dimensions of climate change;
- Create incentives for technology innovation;
- Be environmentally effective;
- Create economic opportunity and advantage;
- Be fair to sectors disproportionately impacted; and
- Reward early action.

We believe these principles are consistent with the criteria laid out by the Labor Party in its election campaign to:

- Ensure that Australia's international competitiveness is not compromised by the introduction of emissions trading.
- Consult with industry about the potential impact of emissions trading on their operations to ensure they are not disadvantaged.
- Establish specific mechanisms to ensure that Australian operations of emissions intensive trade exposed firms are not disadvantaged by emissions trading.

The Amended Draft Legislation does not remedy the fundamental flaws that have been addressed in all previous submissions. The negative impact on the international competiveness of trade exposed Australian industry, such as the LNG industry, in an international market has the potential to cost Australian jobs and tax revenues, not have the intended effect on reducing global emissions and in fact potentially increase global GHG emissions.

ConocoPhillips strongly urges the Australian Government to reassess its assistance to trade exposed industries, especially the LNG export industry as LNG is an intermediate fuel to assist the planet on its quest to a carbon-less economy. ConocoPhillips has demonstrated its commitment to reducing/offsetting GHG emissions and is committed to working with the Government (and other parties) to achieve an outcome that is satisfactory to, and workable for, the whole of Australia and the globe.

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

Yours sincerely

Joe Marushack

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