Carbon Tax An Extra Burden For LNG Exporters: APPEA

The Federal Government's carbon pricing legislation that passed on 8 November 2011 will make natural gas more competitive for domestic power but will add to the cost structure of Australian LNG exporters competing in global markets, APPEA Chief Executive David Byers warned.

The tax will start at $23 a tonne, before moving to an emissions trading scheme by 2015. This is set to have a significant impact on LNG exporters, with the amount of LNG projects slated in Australia.

The carbon tax will target the largest polluters – some 500 companies, including Santos, Woodside Petroleum, Origin Energy, BG Group, Chevron and Royal Dutch Shell, as their projects are major carbon emitters. LNG exporters will receive between 50–66% of their permits for free under the carbon tax, but this is lower than other industries like steelmaking and aluminium smelting that will receive 94.5% of their permits.

Byers said it is important to recognise there is no global carbon price in operation. "So while natural gas will be more competitive as an energy source for domestic power generation, Australia is imposing a cost on its industry that will not be borne by its major LNG competitors. This will diminish its international competitive standing", he said.

Analysts Wood Mackenzie forecast that the global LNG trade will grow from 218 MMtpa in 2010 to 345 MM tonnes by 2020 – equating to a compound annual growth rate of almost 5%.

In Queensland, there have been over 20 MMtpa of CSG to LNG projects given the green light in the past 12 months. While in the West, an additional 30 MMtpa LNG supply is currently under construction from the Gorgon, Pluto, Wheatstone and Prelude projects. Along with other projects being planned this means that by 2020, Australia could produce 100 MMtpa of LNG – five times current levels. Of that, 73 MMtpa will be online by 2016/17.

Byers said that Treasury modelling of the economic impacts of the move does not tell the full story, as it "understates the impacts of a domestic carbon price due to 'courageous' assumptions about future developments in global carbon policy that amount to wishful thinking".

"For every tonne of CO_2 associated with the production, export and consumption of Australian LNG, up to 9.5 t are avoided in customer countries when it is used in place of coal."

David Byers.

After the Senate passed the 18 Clean Energy bills, Byers urged the government to remove the 230 or so other policies and programs regulating greenhouse gas emissions in Australia.

"It is clear that the growth of disparate Australian, state and territory government greenhouse initiatives, and their lack of consistency, are increasing costs and uncertainty for Australian industry", he said.

"The plethora of regulatory and pseudo carbon pricing mechanisms – such as the Mandatory Renewable Energy Target – are no longer consistent with the Government's stated policy intention and should now be removed."

Grant King, Managing Director of Origin, which, with ConocoPhillips and Sinopec, operates the $20 B Australia Pacific LNG project in Queensland, warned shortly before the Senate rubber stamped the tax that it could lead to up to five years of lacklustre investment in new power supply.

However, Origin said at its 24 October 2011 annual general meeting that the company will win either way – even if the Coalition wins the next election and repeals the tax legislation.

Origin said it has long supported an emissions trading scheme as the lowest cost and most flexible way to reduce Australia's emissions, "and we are well placed to benefit under the Clean Energy Future package currently before the Senate", prior to its 8 November passage.

Carbon emissions from Origin's electricity portfolio are lower than the market average, and the Eraring power station is one of the most efficient coal fired generators in the country, it noted. "A carbon price also increases the long-term value of renewable projects such as our proposed Purari hydro project in Papua New Guinea", it added.

"If a carbon price is repealed by a future government, Origin is also well positioned. The value of gas as a cleaner burning fuel is widely recognised in other countries, and international prices reflect that demand. Australian gas prices will rise as the LNG industry connects us with fast-growing Asian markets. This will continue to increase the value of both Australia Pacific LNG and our substantial domestic gas portfolio."

Chevron said that the critical element when any government imposes either a carbon tax or an emissions trading scheme is that the principles of "broad and equitable treatment across all sectors of the economy and transparency be applied".

"Policy–makers need to examine all available policy options, be thorough in the assessment of the impacts and consequences and be open to revisions later on if unintended consequences appear. Whatever the eventual policy, it should first maximise energy efficiency and conservation opportunities for mitigation emissions", Chevron said.

The company said it is not advocating a specific solution to climate change, be it a carbon tax on energy sources that emit carbon dioxide into the atmosphere or an emissions trading program or 'cap–and–trade' that provides economic incentives for achieving reductions in emissions of pollutants.

However, Chevron said that "we do see the conceptual benefit of having the known cost of a carbon tax, particularly as we wrestle with so many other unknowns. 'Cap–and–trade' offers additional flexibility for companies to achieve their greenhouse gas reduction goals".

Santos Chairman Peter Coates noted at the company's May 2011 annual general meeting that the global market is highly competitive. "At a time when demand for natural gas appears set to increase after the catastrophic events in Japan, a carbon tax that does not recognise Australia's international trade exposure would put our LNG projects at a competitive disadvantage", he said.

"It is critical that any policy to put a price on carbon recognises the need to maintain the international competitiveness of Australia's trade exposed industries such as LNG." ■

PESA News No. 115 (2011)