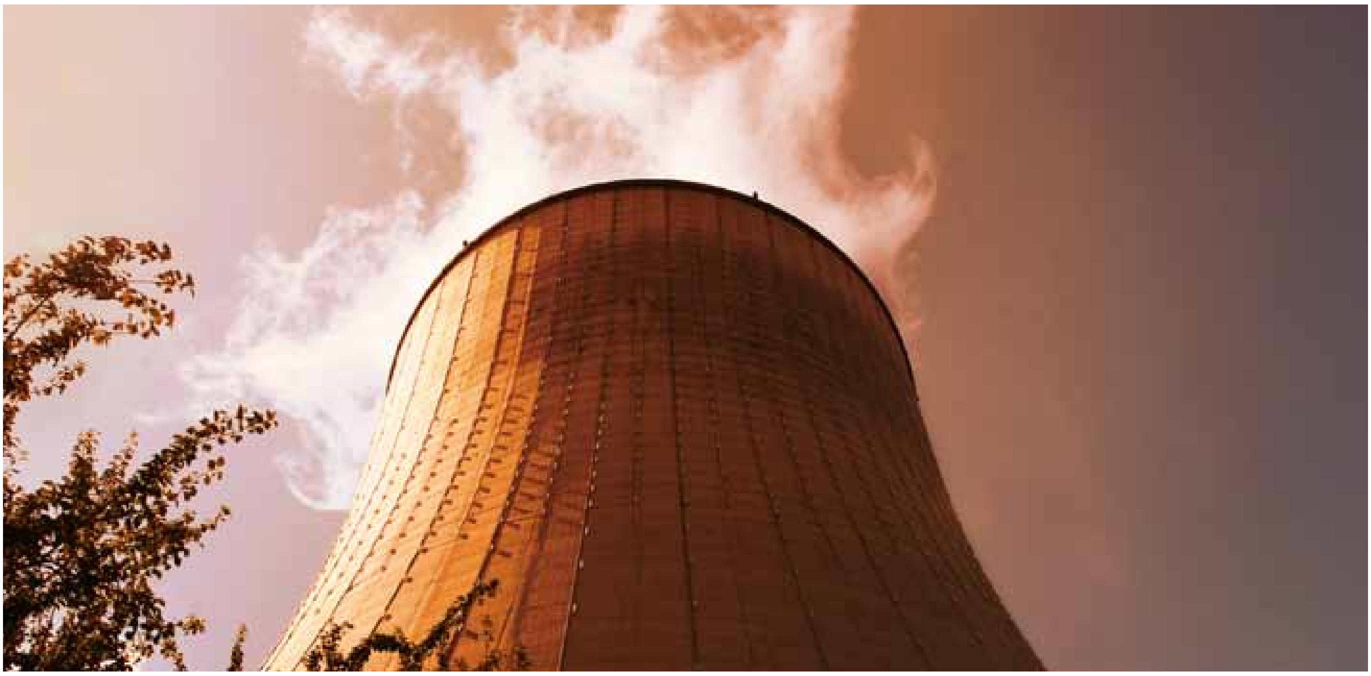
Australia scraps carbon tax

Following a change in Prime Minister the country has changed energy policy and this has not proved popular with industry and public alike, writes Damon Evans



Carbon plan: Australia's changing energy policies are taxing the energy industry

A proposal to replace Australia's deeply unpopular tax on carbon emissions with a market-based trading system a year earlier than previously planned has been given a lukewarm response from industry.

But Australian carbon dioxide (CO_2) emission permits, initially expected to trade at deep discounts to EU Allowances (EUAs), will offer a range of trading and speculative opportunities for investors.

Prime minister Kevin Rudd has said that he wants the fixed price on carbon emissions to end on 30 June 2014, instead of 2015 as had been outlined in the initial plan. A floating carbon price, or emissions trading scheme (ETS) that will be linked to the European carbon market will start the following day.

The move is expected to see a sharp decline in the cost of carbon from an estimated A$25.40 ($23.32) per tonne in July 2014 to around A$6/tonne, saving polluters billions of dollars in carbon costs. The carbon price is set now at A$24.15/tonne.

The carbon tax was the centerpiece of former prime minister Julia Gillard's strategy to cut carbon emissions. Rudd regained the leadership position after ousting Gillard in a party coup last month.

"It will help in the short-term but the (oil and gas) industry would prefer it to be abolished," Graeme Bethune, chief executive of Australian-based consultancy EnergyQuest, told *Petroleum Economist.*

The Australian Petroleum Production & Exploration Association (APPEA), an industry association, says carbon pricing is an unnecessary burden that harms the competitiveness of Australia's liquefied natural gas (LNG) export industry.

The cost of LNG

Many analysts, though, say the additional cost associated with the policy is not enough to be a deal breaker for LNG projects. Moreover, most LNG plants will be compensated, as a trade-exposed industry, for around two thirds of their emissions.

Australian LNG producers also argue that domestic carbon pricing penalises gas as a clean energy source. APPEA estimates that for every tonne of CO_2 associated with the production, export and consumption of Australian LNG, up to 9.5 tonnes are avoided in customer countries when the cleaner burning fuel is used in place of coal.

Rudd's decision to kill off the tax, which narrowly passed into law with the support of the minority Greens party, is his most significant policy change since coming back to power. But regular policy changes threaten to undermine investment confidence in Australia's capital-intensive industries, particularly LNG.

Businesses now face a period of limbo – at least until national elections expected in September – before it is clear whether Rudd's latest proposal will actually be implemented.

Rudd's new carbon plan is reliant on his centre-left Labor Party winning the election and getting support from the Greens. The latest polls show Rudd's party neck and neck with the Liberal-National conservative opposition.

But Rudd's carbon plan, aimed at neutralising widespread opposition to the tax, could be his undoing.

Christine Milne, leader of the Greens, criticized Rudd for what she said was a shortsighted decision to sacrifice the environment in order to score political points with the electorate.

Her party's support was instrumental in allowing Labor to form a minority government after a poor showing in the 2010 elections.

Irking Milne, Rudd has proposed budget cuts of nearly A$4 billion, which includes slashing environmental programmes, to balance state coffers if the carbon tax is abolished. Several clean technology schemes will face

Political challenge for Australian FLNG

WEST Australian Premier Colin Barnett is throwing all his weight up against the proposed Browse floating liquefied natural gas (FLNG) project, spearheaded by Woodside and Shell, off the state's coast.

Barnett, who has been fervently pushing an onshore LNG precinct for Browse to boost the state's economy, is opposing the Woodside-led venture's push to alter the conditions of the retention leases to process the gas offshore using FLNG, rather than at James Price Point.

He told the Australian Financial Review that he had no intention of relaxing them unless there is a new arrangement that is satisfactory to the state. A key condition is that the Browse partners build an onshore processing hub on the Kimberley coast.

At the very least he wants to see a supply base built at the controversial James Price Point site to service the project, even though there are more developed alternative sites nearby. But the developers will be loth to return to the environmentally and culturally sensitive area following intense opposition to the previously proposed LNG precinct.

Barnett can strip the Browse venture, whose partners are BP, PetroChina, Mitsubishi and Mitsui, of the state's retention leases in December next year.

The originally proposed 12 million tonne per year (t/y) onshore scheme was shelved after soaring costs and one of the highest break-even rates in the industry made it uneconomic.

But analysts say it is unlikely to be local political opposition that derails any initial development of Browse.

"An FLNG solution is sure to be phased over multiple vessels and, like with any development, you develop the most attractive resource first, which in this case lies in Federal waters," Chris Graham, an Australia-focused upstream specialist at research firm Wood Mackenzie, told *Petroleum Economist.*

A source close to the project said, "there is more estimated resource than is on the public record, so plenty of gas to get started with, especially with sequenced FLNG." And considering the huge volumes of associated liquids production, a "big fat" floating production storage and offloading unit, similar to 1.2 million barrel floater Total is building for its Ichthys LNG scheme off northern Australia, would work well, the source added.

The Browse basin leases lie in both state and federal waters. Two of the seven leases are controlled by the Western Australian government and hold an estimated 20% of the gas.

The remaining five leases – representing 80% of the 15 trillion cubic feet Browse resource – are controlled by the Federal government, which supports FLNG and is likely to agree to change the retention lease terms, said Graeme Bethune, chief executive of Australian-based consultancy EnergyQuest.

Federal Resources Minister, Gary Gray, a former Woodside executive, understands that the industry sees FLNG as the only way forward to commercialise offshore gas, aside from expanding existing facilities or plants already under construction. In an increasingly competitive Australian and global LNG market, new onshore greenfield projects have lost their appeal.

But Western Australia wants to get Browse gas onshore in order to meet its domestic reservation policy. The government want to force relatively high pipeline gas prices down through artificial injections into the local market, noted one analyst.

Bethune told *Petroleum Economist* that Barnett's opposition would probably not stall the project's development.

"Getting off-takers for up to 12 million tonnes and developing an FLNG project of this size would, I think, be the biggest challenges."

Shell, which upped its stake in the venture last year and is pioneering FLNG technology with its Prelude project off Western Australia, maintains that it is the fastest, most economic and best technical solution for Browse.

Aside from cost advantages, using FLNG also cuts out difficult native title negotiations with aboriginal groups, while environmental damage is also minimised.

Apart from Prelude and Browse, at least four more FLNG liquefaction projects are proposed off Australia, including two new schemes that are on course to be sanctioned over the next two years.

Thailand's PTT Exploration and Production (PTTEP) is due to start front-end engineering and design (Feed) work for its Cash-Maple project, while GDF Suez and Santos are in the pre-Feed stage for their Bonaparte scheme.

ExxonMobil is considering what would be the world's biggest FLNG plant as a potential solution for its deep-water Scarborough field off Western Australia, while the Woodside-led Sunrise project in the Timor Sea could yet be developed using FLNG if an agreement can be reached with Timor Leste.

Some analysts also believe Shell's Crux field, rather than provide backfill for Prelude, is big enough for a standalone FLNG floater that could also form a hub for third-party gas. ●

the axe, including investments in carbon capture and storage.

At the other end of the spectrum, the opposition Liberal party has promised to scrap the carbon price altogether if it wins. Tony Abbott, leader of the opposition coalition, dismissed the ETS as a "so called market in the non-delivery of an invisible substance to no-one."

But political analysts believe Rudd's move, although it creates uncertainty, will make it tricky for Abbott to alter the carbon legislation by next February, when the auction of emissions permits is due to start.

Because of the earlier start for the ETS, permits are expected to be priced at levels even less than than those in Europe as lower emissions in Australia trigger lower demand.

Melbourne-based carbon analysts RepuTex forecast permits will trade 30-40% lower than European prices for the first two to three years – with parity between the markets unlikely until later in the decade, when pricing will be driven by European policy.

Regular policy changes threaten to undermine investment confidence in Australia's capital-intensive industries, particularly LNG

According to RepuTex, the lower emissions in the Australian market can be attributed to the LNG sector, with new projects now unlikely to be online by 2014 when the new carbon market would open.

"If we bring forward the ETS by one year, the Australian carbon market would look very different, particularly in the LNG industry where major projects such as Australia Pacific and Gladstone LNG, scheduled for a 2015 start, would be yet to come fully online," Hugh Grossman, executive director at RepuTex said.

The early start to emissions trading would see the Australian carbon price open at A$6.50-7.50 for the financial year ending June 2015, around 35-40% under the European price, forecast to be about A$12 over the period, data from RepuTex shows. EUAs are now trading at just over €4 ($5.23).

"With the early ETS a possibility, the key thing to watch for the local market now becomes the growth or decline of Australian emissions, particularly related to electricity generation and major LNG projects such as Arrow and Browse LNG, both of which may be at risk of delay due to competitive pressures in the US and China," added Grossman. ●