Bloomberg.com

Australian Carbon Plan to Cut LNG Growth, Group Says (Update1)

By Angela Macdonald-Smith

Sept. 24 (Bloomberg) -- Australia's plan to start trading carbon emissions in the absence of a global agreement may have a ``severe'' effect on growth in the liquefied natural gas industry, an oil and gas lobby group said.

LNG output may be reduced by more than 37 percent in 2020 and by more than 54 percent a decade later from what it would have been, should Australia unilaterally commit to a one-fifth cut in greenhouse gas emissions by 2020 from 2000 levels, the Australian Petroleum Production & Exploration Association said today. It cited projections by Concept Economics.

Under Australia's proposed carbon trading system, due to start in 2010, LNG producers wouldn't qualify for free emissions permits. That would increase costs for ventures that compete for customers against rivals in countries such as Qatar and Indonesia where there is no cost placed on emitting carbon.

``The growth of Australia's LNG represents the most immediate and significant contribution Australia can make to assist the world in moving to a less carbon-intensive future,'' Belinda Robinson, chief executive of the industry group, said in the e-mailed statement.

Each extra metric ton of cooled gas that the LNG industry can export to China will help avoid global greenhouse gas emissions of up to 6.8 tons in net terms, she said. The association proposes a category of industries called Clean Global Contributors that qualify for free permits.

Woodside, Inpex

The group represents companies including Woodside Petroleum Ltd., operator of the North West Shelf LNG venture, ConocoPhillips, Chevron Corp., BHP Billiton Ltd., Inpex Holdings Inc. and Royal Dutch Shell Plc, all of which have interests in producing or proposed LNG projects in Australia.

Perth-based Woodside said last week that introducing carbon trading in Australia may more than double operating costs for a typical project.

Australian Climate Change Minister Penny Wong has said the carbon trading system needs to cover as many industries as possible to ensure that no single sector has to bear an unfair share of the cost. The Sydney-based Climate Institute said last week that proposals from emissions-intensive industries for ``handouts are likely to come at a substantial economic cost to the wider community.''

Credit Suisse Group said in August that while the carbon trading plan may reduce the profitability of LNG ventures, the viability of most projects wouldn't be threatened.

Australia Leads Growth

Australia is the nation expected to show the biggest growth in LNG production capacity through 2022, with a potential 91.7 million tons a year of new capacity as of March 2008, 16 percent of the total proposed in the world in that period, according to the Paris-based International Energy Agency.

The government is due to release its final proposal for the design of the carbon trading system by the end of the year.

The association hired consultants Concept Economics to assess the impact of the government's carbon trading proposals on costs for the Australian LNG industry. Brian Fisher, Concept Economics' manager for the LNG project, headed the Australian Bureau of Agricultural and Research Economics for 17 years.

LNG is natural gas that has been chilled to liquid form, reducing it to one-six-hundredth of its original volume at minus 161 degrees Celsius (minus 259 Fahrenheit), for transportation by ship to destinations not connected by pipeline. On arrival, it's turned back into gas for distribution to power plants, factories and households.

To contact the reporter on this story: Angela Macdonald-Smith in Sydney at amacdonaldsm@bloomberg.net

Last Updated: September 23, 2008 23:13 EDT