

Chevron's Wheatstone and Gorgon may be hit by ETS

Cath Hart | *October 21, 2008*

THE economic hurdles for the LNG industry from the proposed emissions trading scheme might jeopardise final investment decisions.

This affects Chevron's giant Wheatstone and Gorgon projects, a senior executive warned yesterday.

Chevron Australia managing director Roy Krzywosinski said the current terms of the federal Government's emissions trading scheme -- which does not compensate LNG exporters -- could have the opposite effect to reducing carbon emissions.

"The way the ETS is currently proposed leaves the LNG industry bearing the full economic costs, and is essentially subsidising more carbon-intensive industries," Mr Krzywosinski told the Asia-Pacific Oil and Gas Conference and Exhibition in Perth yesterday.

"This will compromise the growth of the LNG industry and increase global warming."

LNG exporters such as Woodside and Inpex have argued that the industry should be compensated when the scheme starts because of LNG's potential role as a low-emission transition fuel in the shift to a carbon-constrained economy, and to ensure it remains competitive against overseas companies that do not have to pass on a price for carbon.

Chevron, operator of the wholly owned Wheatstone Project and the 15 million-tonnes-a-year Gorgon project on Barrow Island, which is estimated to be worth \$30 billion, said the proposed scheme could affect the projects' progress.

"We must take the time to get the design of an emissions trading scheme right or the economic hurdle may put final investment decisions on major projects, such as the Gorgon and Wheatstone Projects, in jeopardy," Mr Krzywosinski said.

The US oil major said a hypothetical carbon price of \$20 a tonne could increase operating costs at Wheatstone and Gorgon by "\$100-200 million each per year".

"We support the Australian Government taking a leadership position in emissions trading, but the current proposed model penalises the LNG industry, the very industry that is part of the solution to reducing global emissions," Mr Krzywosinski said.

"I will go a step further to say, a well-designed ETS should encourage and support industries such as LNG that make a net positive contribution to a lower carbon world. We have a lot at stake in Australia."

Woodside boss Don Voelte said project costs were already high, although the economic downturn might ease some of these pressures. "It isn't easy, particularly in Western Australia where the boom in mining and oil and gas has generated intense competition for materials and people," Mr Voelte said.

"This has led to soaring construction costs and a severe shortage of skilled workers.

"An economic downturn ... might ease some of this pressure, but with tens of billions of dollars worth of projects under way and under consideration in WA, costs remain high."