

# Woodside out on a limb with trees

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IT'S deliciously ironic that oil and gas producer Woodside Petroleum, one of the most strident opponents of the federal government's proposed emissions trading scheme, should be party to the biggest carbon offset deal in the country.

Woodside last week confirmed that it would take up an option to extend an offset scheme first struck with carbon specialist CO2 Australia in late 2007. The \$100 million deal will create a carbon sink of mallee forests across 23,000ha in marginal farming lands in NSW and Western Australia — the largest carbon sink project of its type in the world.

Has Woodside changed its colours on carbon trading? Not quite. The agreement with CO2 was struck because it was a requirement of the WA government when approval was provided for the development of the \$12 billion Pluto LNG project.

The 300,000 tonnes of carbon emissions saved each year through the carbon sink will offset the carbon released from Pluto reservoir, although this accounts for less than 20 per cent of the overall carbon emissions generated through extraction and processing of the resource.

Woodside's strong opposition to the ETS as originally proposed was a big factor in the LNG export industry finally qualifying for free permits under the amended scheme. One of its possible projects considered most at risk from the original ETS was the Browse Basin, which has a much higher carbon intensity in the reservoir, although analysts at JPMorgan and Citi disputed whether it would greatly affect the economics of the project.

It is not clear whether Woodside would qualify for free permits for those emissions already offset by the deal with CO2 at Pluto, should the ETS ever be passed by parliament.

For CO2, the Woodside transaction is by far the largest of its 27 deals to date, by a factor of nearly eight. It will receive the \$100m in return for securing marginal farming land, planting the trees, and then managing and creating the credits. It will receive most of the money in the initial years of the 40-year contract.

CO2 recently came out in support of the government's proposed delay of the start date of the ETS to 2011, although reforestation projects, its own speciality, will still be able to generate credits from July 1, 2010.

CEO Andrew Grant says bio-sequestration is a cheaper option than other alternatives and says Woodside should be congratulated for its investment.

The federal Opposition, which was instrumental in securing at least a year's delay in the ETS, recently suggested introducing a large voluntary carbon exchange in Australia, similar to the one established in Chicago and in Europe.

However, Grant does not think that voluntary markets are a strong driver of growth for his business. "Our business is focused around the mandatory market," he says. "Big corporates will only make very large investments in this area because they have to."