Carbon Price Assumptions
Woodside Petroleum Limited

"The Earth's climate has changed. The global average surface temperature has increased over the last century and many other associated changes have been observed. The available evidence implies that greenhouse gas emissions from human activities are the main cause. It is expected that, if greenhouse gas emissions continue at business-as-usual rates, global temperatures will further increase significantly over the coming century and beyond."[1]

There is growing international consensus regarding the need to regulate and price greenhouse gas emissions and there is a risk that significant costs will be imposed on emissions-intensive business operations.

A number of countries including the European Union countries have introduced emission trading schemes. It appears probable over the next decade, that many more countries will introduce some form of carbon emissions regulation or pricing.

The International Energy Agency has estimated that to stabilise the concentration of greenhouse gas emissions in the atmosphere at 450 parts per million the price of carbon emissions in industrialised countries will reach US$50 per tonne in 2020 rising to US$110 by 2030 (and US$65 per tonne in other major economies).[2] This level of concentration is consistent with limiting the increase in global temperatures to 2°C–a goal recognised under the Copenhagen Accord.[3]

Putting a price on carbon emissions will bring significant economic and financial benefit to most countries, industries and companies. However, some carbon intensive industries and companies may suffer significant losses.[4]

Analysis of the oil and gas sector by McKinsey & Co. and the UK Carbon Trust concluded that "Winning players can mitigate the value-at-risk by anticipating changes in demand and managing new capital expenditure correctly whilst investing to achieve below average carbon intensity in operations and diversifying. A failure to take these actions places significant value-at-risk" [circa 35%].[5]

Our Company has previously stated that its Browse Basin LNG project offshore Broome in Western Australia would be adversely affected by an unfavourable emissions trading scheme (ETS). "Browse is big and costly, and has higher CO2 content than our other projects," a [Woodside spokesman] said. "Of all of our LNG portfolio, it is also the project that will be the most adversely affected by an unfavourable emissions trading scheme."[6]

While the Australian Government's now delayed emissions trading scheme (ETS) proposed to offer taxpayer funded compensation to LNG projects, a change in the political landscape could alter the final structure of arrangements for carbon emissions pricing and regulation, posing strategic uncertainties for our Company.

To our knowledge, our Company has not publicly disclosed the assumptions it uses in its assessment of new and ongoing capital expenditure and in its assessment of balance sheet values regarding the path of future -carbon prices, oil prices, demand for oil and regulation of greenhouse gas emissions. In our view the company should disclose this material in its annual report.

The importance of disclosure of this sort of information is increasing as potential carbon liabilities have an increasing influence on company valuations. Institutional investors in particular are increasingly interested in integrating environmental, social and governance (ESG) research into their investment decisions with approximately half of the funds under management of Australian asset managers now falling under the United Nations' Principles for Responsible Investment (PRI, the Principles) commitments to ESG integration.[7] These investors are committed to seeking appropriate disclosure of ESG issues (such as the impact of carbon regulation and pricing) into company annual reports.

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We are keen to ensure that our Company is positioned to prosper in the transition to a low-carbon economy. We invite other shareholders to vote in support of the following resolution we propose to move at the forthcoming annual general meeting.

This resolution has been lodged with the PRI Clearinghouse and the Interfaith Center on Corporate Responsibility.

Resolution
THEREFORE, BE IT RESOLVED:
"That shareholders consider that the annual director's report should include:
a) a description of assumptions made by our company, in its assessment of new and ongoing major capital expenditure, regarding the path of future -carbon prices, oil prices, demand for oil and regulation of greenhouse gas emissions; and
b) a description of assumptions made by our company and our company's auditor, in making their assessments as to the extent (if any) of impairment of company assets, regarding the path of future – carbon prices and regulation of greenhouse gas emissions.

so that the members can make a better informed assessment of the operations of the company and the company's business strategies and its prospects for future financial years, these descriptions to be prepared at reasonable cost and to omit proprietary information."

1 The Science of Climate Change: Questions and Answers (Australian Academy of Science, August 2010)
2 World Energy Outlook 2009 (International Energy Agency, 2009)
3 Copenhagen Accord, 18 December 2009
4 Climate Change Justice, Posner, E. A. & Weisbach, D. (Princeton University Press, 2010) page 20 and Chapter 8.
5 Climate change – a business revolution? How tackling climate change could create or destroy company value, page 7 (Carbon Trust, 2008)
6 Woodside warns ETS threatens LNG project (Sydney Morning Herald, 27 August 2008)
7 Responsible Investment 2009 (Responsible Investment Association Australasia, 2009)