SENATOR THE HON JENNY McALLISTER
ASSISTANT MINISTER FOR CLIMATE CHANGE AND ENERGY

MS23-900948

Senator the Hon Sue Lines
President of the Senate
Parliament House
CANBERRA ACT 2600

Dear President

SENATE ORDER 382 – Barossa Gas Project

1. Please find attached response from the Minister for Climate Change and Energy, the Hon Chris Bowen MP, to Senate Order 382 regarding the production of documents including:

    a. Any emails, file notes or briefing documents from or received by the Department of Climate Change, Energy, the Environment and Water between 1 March 2023 and 30 September 2023 that mention Santos or their lobbyist, Ms Tracey Winters, and communications they made with JERA, Tokyo Gas or members of the Japanese Government in relation to the Barossa gas project and the Safeguard Mechanism.

Yours sincerely

Senator the Hon Jenny McAllister
Assistant Minister for Climate Change and Energy

Enc

Archived: Thursday, 16 November 2023 11:29:11 AM
From: Edwina Johnson Edwina Johnson
Sent: Wednesday, 15 November 2023 12:13:45 PM
To: Edwina Johnson Edwina Johnson
Subject: FW: Confidential: Safeguard Mechanism Discussions - Barossa [SEC=OFFICIAL]
Response requested: No
Sensitivity: Normal

From: [redacted]@industry.gov.au>
Sent: Thursday, 23 March 2023 5:49 PM
To: Johnson, Edwina <Edwina.Johnson@industry.gov.au>; Kath Rowley <kath.rowley@protected.dcceew.gov.au>
Subject: Fwd: Confidential: Safeguard Mechanism Discussions [SEC=OFFICIAL]

For urgent response.

OFFICIAL

From: Gallagher, Kevin (Kevin

Dear Chris,

Thank you again for your calls over the last few days. I wanted to circle back after discussions with our Barossa JV partners to provide some further thoughts.

I understand your imperative to meet the 43 per cent emissions reduction target by 2030 and to secure passage of the Safeguard Mechanism legislation. Santos wants to work with you constructively to assist in meeting those objectives. Since it is all about emissions reduction, there are multiple pathways to do this and we do not think the proposed solution is the best one.

Regarding Barossa, I reiterate the importance of CCS and the need for time to develop a CCS solution (Bayu-Undan) which would get Barossa to net zero Scope 1 emissions by 2030, however, the Barossa JV cannot accept a retrospective requirement to do this from day one.

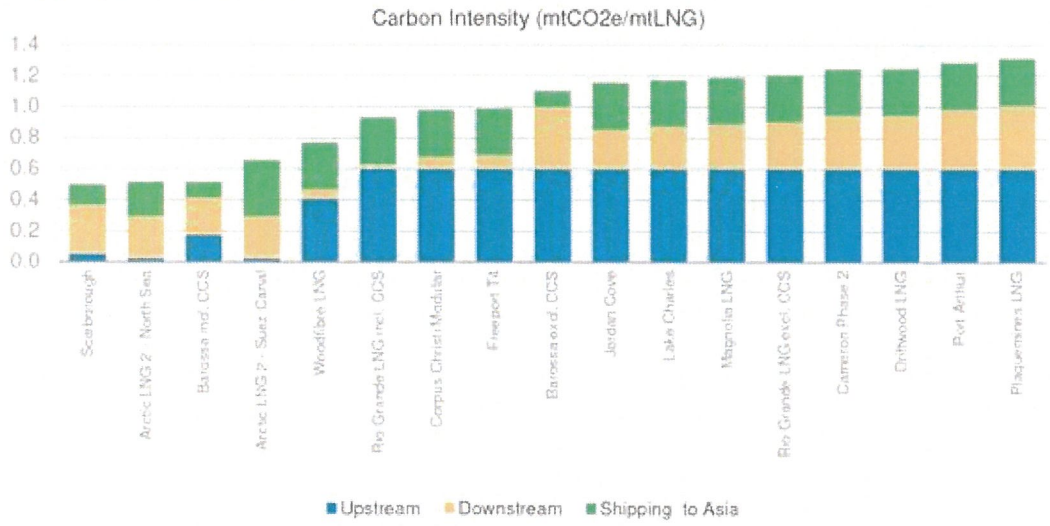
Amendments that affect new gas projects should be fair and non-discriminatory, particularly when they are retrospective and affect projects that are already under construction and have taken final investment decisions based on approvals already received. As discussed emissions are emissions, and standard international classifications (ie Scopes 1, 2, 3) should be used in any policy application instead of the invention of a new classification for "reservoir" emissions, which I note is a term very commonly used by Woodside in investor presentations to downplay the significance of Scarborough's Scope 1 emissions.

Further, stronger support through accelerated regulatory approvals for CCS and indeed, non-discrimination against CCS as a low emissions technology in government programs is essential for the industry to be able to decarbonise and must be part of any Safeguard amendment package. As I said in my letter of Tuesday night, Australia's current perceived lack of support for CCS, which would not only abate our energy export industries, but assist other hard to abate sectors such as chemicals, cement and steel, is placing Australia's energy intensive trade exposed industries

at a further competitive disadvantage, especially against the United States which recognises the criticality of CCS to its industries.

While I have not yet received a response from you to my letter, I have given further consideration to the policy proposition which, as I understand it, will specifically penalise reservoir emissions from a new gas project that is not increasing, but simply replacing, existing LNG supply volumes for Asia through Darwin LNG. At the same time, the proposal will apply no penalty to a new gas project supplying a new LNG train being built in Western Australia that will add new LNG supply volumes over and above Australia's existing LNG production. While I am not advocating for penalties to apply, where two projects have already taken final investment decisions, the principle of equity should be applied in any retrospective situation. You can see from the following Morgan Stanley analysis that, as I have already said, Barossa with CCS is very comparable to Scarborough. Even without CCS, which the joint venture is trying to develop for Barossa, Barossa is in the middle of the global pack with most US LNG projects having higher carbon intensity. Australian LNG projects should not be disadvantaged compared to their international competitors. Just as steel is, LNG is an energy intensive trade exposed sector.

Exhibit 2: Russian and Australian projects stack up well globally vs. peers on emissions, given proximity to Asia and effectiveness of CCS solutions



Source: Morgan Stanley Research estimates. Data as of Oct 21, 2021

As I alluded to in my letter, Reputex, which conducted the modelling for the government's Safeguard policy taken to the 2022 election, has this month produced a Safeguard policy study for the Australian Conservation Foundation and the Climate Council which is heavily focused on penalising Barossa and Browse. Browse is very different to Barossa because it has not taken a final investment decision. The study states that *"Should Barossa instead be classified as 'backfilling' an existing facility, Santos would only be accountable for the difference in emissions between Barossa and the depleted Bayu-Undan field. This would make Santos less accountable for its emissions, given it would receive the existing baseline for the Darwin LNG facility, rather than a 'best practice' baseline for a new facility."*

In Santos' view, it would be entirely appropriate for Santos to be accountable for the difference in emissions between Barossa and Bayu-Undan, since it is a backfill project that is not adding to global LNG production.

Further, under Reputex's alternative approach, it notes that *"the benefit of more stringent emissions baselines for new projects could be applied into more lenient decline rates for existing facilities, which would no longer need to take increased action to accommodate the emissions of new entrants... Expectedly, the drop in decline rates is most significant for pathways in which additional LNG projects are classified as new*

facilities, ***as all emissions from Browse and Barossa are abated or offset.***"

I would be extremely concerned if the government were to adopt this policy from climate action groups who are actively campaigning to stop the Barossa project. Further, all sectors should be decarbonising. No sector is doing more than gas towards this objective, I can assure you no company is doing more than Santos in committing actual capital to decarbonise our existing operations, and offer decarbonisation solutions to other companies and industries. Our Moomba CCS project is 55% completed and is just the start of what we hope will become a CCS superhub utilise direct air capture and laying the foundation for a very large green (synthetic) methane project in the future. To penalise one energy intensive trade exposed sector (or one project within it) and to then reduce decline rates for other sectors would seem completely inappropriate.

I am keen to be part of the solution and to work with you on a fair and equitable policy proposal for the gas sector, however, it cannot be one that simply targets Santos and our Barossa gas project.

On another note I am pleased to report back that our team have had some very positive discussions with the ACCC.

Please call me anytime if you wish to discuss further or ask your team to contact our folks copied on this email. Our team fully understand the sensitivity of these conversations.

Best Regards,

Kevin

Santos Ltd A.B.N. 80 007 550 923
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Archived: Thursday, 16 November 2023 11:31:38 AM
From: Johnson, Edwina
Sent: Monday, 13 November 2023 8:35:23 AM
To: Edwina Johnson
Subject: FW: Correspondence from Santos CEO to Minister Bowen [SEC=PROTECTED]
Sensitivity: Normal

PROTECTED

From: [redacted]@industry.gov.au>
Sent: Tuesday, 21 March 2023 8:38 PM
To: Johnson, Edwina <Edwina.Johnson@industry.gov.au>; Rowley, Kath <Kath.Rowley@industry.gov.au>; Simon Duggan <Simon.Duggan@protected.dcceew.gov.au>
Subject: FW: Correspondence from Santos CEO to Minister Bowen [SEC=PROTECTED]

PROTECTED

From: Winters, Tracey (Tracey) [redacted]>
Sent: Tuesday, 21 March 2023 8:31 PM
To: Garrett, Andrew <Andrew.Garrett@industry.gov.au>; [redacted]@industry.gov.au>
Subject: Correspondence from Santos CEO to Minister Bowen

Andrew and [redacted], Kevin advised the Minister in his phone call earlier this evening that he would be sending the following correspondence. Could you please draw to the attention of the Minister.

Dear Minister,

Thank you for your call this morning and for taking my call this evening.

As discussed, Santos and our Japanese and Korean joint venture partners, JERA and SK E&S, could not accept net zero reservoir emissions from day one of production from the Barossa Gas Project. The earliest this could be committed to would be 2030, to allow time for Santos to develop a CCS option. With long-term offtake agreements in place with LNG customers, we need a guarantee that CCS or ACCUs/SMCs will be available to achieve net zero reservoir emissions. A forecast of sufficient liquidity in ACCU/SMC markets would not suffice.

Santos has been voluntarily and proactively pursuing a carbon capture and storage project in depleted reservoirs at its Bayu-Undan gas field, which would enable the capture and storage of all Scope 1 Barossa emissions within a few years of project startup, however, the Australian government has to date shown little interest or support in addressing the range of regulatory issues and diplomatic interfaces that need to be resolved to allow the project to proceed. The project is in front end engineering and design which is nearing completion and we would like to take a final investment decision in 2024 if regulatory approvals can be obtained. Without CCS, zero (or even net zero) reservoir emissions may not be possible to achieve subject to the availability of sufficient quantities of ACCUs and/or SMCs, which we understand will be required to offset reservoir emissions.

Santos has set a net zero Scope 1 and 2 emissions target of 2040 and we are working hard to achieve that. This requires us to be able to access the cash flows from our LNG business to fund CCS and other decarbonisation initiatives.

However, on top of the reopening of approvals already given by NOPSEMA after a final investment decision on the A$5 billion Barossa project was taken in March 2021, this proposed retrospective regulatory impost would add [redacted] average annual operating costs for the life of the project ([redacted]). Ownership rights to Barossa gas have already passed to titleholders following the award of a

production licence by the Commonwealth and Santos has already sold its share of Barossa gas to Japanese customer Diamond International (a Mitsubishi company) under long-term contract from 2025. The project is already 55 per cent complete, with this investment having been made in good faith and in the reasonable expectation of a stable Australian regulatory regime and low sovereign risk.

Your proposed measure will require the joint venture to reconsider the future of the project in the context of a regulatory regime that, despite the government's recent rhetoric acknowledging the role of gas in the energy transition and the importance of honouring international LNG trade and investment relationships, appears designed to strangle the economics of gas development and LNG export projects in Australia, even after final investment decisions have been taken. The measure virtually mirrors the campaign by a large group of eNGOs and the Greens and crossbenchers to "Stop Barossa Gas." It is also very similar to the proposal tweeted yesterday by Teal independent Sophie Scamps and proposals of the Australian Conservation Foundation and the Climate Council. While Santos might not consider the measure terminal for the project (based on what we currently know), our Japanese and Korean partners may have a different view.

If the A$5 billion Barossa gas project was not to proceed, the Darwin LNG project would also have to be mothballed and the life extension project worth another ~A$1 billion would not proceed. Hundreds of direct jobs would be lost in Darwin along with many more indirect jobs in the local businesses that supply and service DLNG and our offshore gas projects. Government revenue of ~A$11 billion would also be foregone and Australia's relationships and reputation in Japan and Korea would be seriously damaged.

Your proposal effectively targets Santos and its Barossa gas project which is likely to be the only seriously impacted project in Australia, because of the geochemistry of its reservoir compared to Scarborough and Crux, which have also taken FID. While Scarborough would build a new LNG train with emissions not currently in the Australian system, an existing LNG facility in the Northern Territory would be placed at risk. This is despite the fact that Barossa's emissions intensity would be very similar to Scarborough if the barriers to investment in CCS were addressed. Australia's lack of support for CCS, which would not only abate our energy export industries, but assist other hard to abate sectors such as chemicals, cement and steel, is placing Australia's energy intensive trade exposed industries at a further competitive disadvantage, especially against the United States which recognises the criticality of CCS to its industries.

In every scenario outlined by the International Energy Agency, natural gas has a critical role to play in Asia through coal-to-gas switching, carbon capture, use and storage (CCUS), hydrogen production and supporting renewables to 2050 and beyond. Demand for natural gas in the fast-growing developing Asian market continues to provide an economic opportunity for Australia, which Australia will lose to the Middle East, the United States and Russia if it does not continue to develop its own gas resources. Australia too will still need natural gas in 2050 for manufacturing and renewables firming. However, Australia will lose its own competitive energy advantage as well because the domestic market lacks the scale of export markets and is not large enough on its own to fund the capital-intense development of the energy resources it needs. Despite the IEA's headline message that there should be no new oil and gas projects, all its scenarios still require hundreds of billions or trillions of dollars in new investment in supply projects, which, until the Russian war in Ukraine, was mainly slated for the Middle East and Russia, with their share of global supply growing to more than 60 per cent by 2050 under the Net Zero scenario. This is despite the fact that new oil and gas projects in Australia would undeniably have stronger environmental and emissions regulation.

Australia has been an energy-producing nation for the Asian region for the best part of 60 years. This is the foundation of our relationship with countries like Japan and Korea, who rely on us for the energy security which underpins their economies and their wealth. It is not in our national interest to drive them to the Middle East, the United States and Russia. And there is no environmental or emissions reduction benefit in doing so.

Santos requests your reconsideration of the proposal. In particular Santos could commit to net zero reservoir emissions from Barossa by 2030 if the Australian government also committed to facilitating the development of Bayu-Undan and other CCS projects by working constructively towards getting the right regulatory frameworks in place, including those relating to international obligations such as the London Protocol, as a matter of urgency.

Yours sincerely
Kevin Gallagher

CEO
Santos

Santos

Tracey Winters
Strategic Adviser External Affairs
Santos Limited
[redacted]

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Office of the Managing Director and Chief Executive Officer

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Santos

6 June 2023

The Hon Chris Bowen MP
Minister for Climate Change and Energy
PO Box 6022
House of Representatives
Parliament House
Canberra ACT 2600

Via email: Andrew.Garrett@industry.gov.au

Dear Minister

Thank you for your letter received 5 May 2023 and for taking to the time to meet with me in April when you were in Adelaide. I am writing to you today having just returned from a visit to investors, financiers, customers and government stakeholders in Japan and Korea. Despite my assurances, I received very strong feedback regarding Australia's reliability as a partner in energy resources trade and investment. There are real concerns about the retrospectivity of recent policy changes in Australia, the threat to energy security for their economies and availability of large-scale CCS providing a CO2 sequestration solution for their economies.

While I appreciate you taking the time to respond to the issues I raised, I remain deeply concerned about the retrospectivity of the changes to the Safeguard Mechanism and the way in which they effectively target a single project, being the Barossa Gas Project. Barossa was already under construction and a final investment decision was taken two years prior to the changes.

You may not have seen the public comments made by JERA's Global CEO on 31 May 2023, which were widely reported in Asia:

"Traditionally, we have been buying a large volume from Australia because it has been politically stable despite relatively high costs as a stable supplier," Kani said. "However, if it turns out it is not the case suddenly that would change a premise considerably."

Despite JERA's efforts to boost its renewable capacity, should it does not happen in time, the company might need to avert its supply risk from exploring such new supply sources in Africa or the Middle East, Kani said.

"At this point, we do not have a clear answer yet but internally we are having quite serious discussions, honestly speaking," he added.

JERA is Japan's largest power generation company and an offtaker and investor in Barossa and Darwin LNG. Santos has sold its equity share of Barossa gas to another Japanese company. These projects are already factored into Japan's energy security out to at least 2040 on the basis of Australia's long-standing reputation as a safe place to invest with a reliable and stable approvals and fiscal regime, and as a place that would always honour its contracts.

Santos and our joint venture partners, JERA and Korea's SK E&S have been working proactively and voluntarily to reduce Barossa's carbon emissions through development of the proposed Bayu-Undan Carbon Capture and Storage (CCS) Project, which would make Barossa and Darwin LNG amongst the lowest-carbon LNG projects in the world. It is disappointing that this was not recognised and that the

government's retrospective changes to the Safeguard Mechanism were not accompanied by the sense of urgency that is required of governments to put in place the regulatory frameworks necessary to enable this project to proceed. I was particularly concerned to hear Mr Shane Gaddes of your Department say at the parliamentary inquiry into the London Protocol on 26 May 2023 that:

"...for projects like the Bayu-Undan project, where we would need a regulatory framework on the Timor side—so that's one where Australia would seek to export CO2 rather than import—we would need to be satisfied that there was a sufficiently robust regulatory framework on the Timor side, because it's not a party to the London protocol. So that would take, potentially, considerably more than seven years, for the Timor side to set up their regulatory framework and for us to put the gas on the other side."

When asked whether this meant 10 years, 15 years or 20 years, Mr Gaddes said:

"I couldn't speculate because it would depend on the motivation of the regulatory agencies and the companies involved. If they're all sufficiently motivated and the incentives are right, it could happen very quickly."

Santos and our joint venture partners are highly motivated and **I am therefore seeking your commitment to ensure the regulatory agencies are also sufficiently motivated to have the necessary frameworks in place within the next year so the joint venture partners can take a final investment decision on Bayu-Undan CCS and commence construction.**

With Barossa still targeting a 2025 start-up and the Safeguard Mechanism now requiring net-zero reservoir emissions from day one of production, time is of the essence to get Bayu-Undan CCS developed. The number one prerequisite is the regulatory frameworks which only the Australian and Timor-Leste governments can deliver. We are working constructively with the Timor-Leste government for which this project is important to go some way towards replacing Bayu-Undan production revenue and to provide ongoing skilled, secure and well-paying jobs for Timorese workers. However, a concerted tripartite effort will be required to deliver the necessary regulatory frameworks in both jurisdictions.

The uncertainty of the timeframe before we can take a final investment decision makes access to Australian Carbon Credit Units (ACCUs) a critical issue for Barossa and Darwin LNG. When we commenced front end engineering and design for Bayu-Undan CCS in March last year, we had been hoping to be in a position to make a final investment decision this year (per our ASX release), but there has been little movement forward on the required regulatory frameworks over the past year.

ACCU availability

Therefore, while I appreciate your assurance that market conduct will be monitored closely for manipulation or inappropriate conduct, my concerns about overall increased demand and the consequential impact on supply remain. In your letter you refer to supply that is anticipated to be developed in response to demand. This is not sufficient to assure Santos and our joint venture partners that we can commence gas production from Barossa with the certainty that we will be able to access sufficient ACCUs to meet our obligations.

Until such time as CCS opportunities are available, it is critical for us to have a guarantee that there will be sufficient market supply of ACCUs or Safeguard Mechanism Credits (SMCs) to offset Barossa's reservoir CO2 emissions for the life of the project.

Given baselines will remain production-adjusted, if Barossa does not have sufficient access to abatement or offsets, the project's only option to remain compliant would be to cease production, as far as we are aware. This is a risk not acceptable for the joint venture partners and a risk on which we need urgent and definitive clarification from you.

I therefore seek your reconsideration of our previous request for a guarantee of carbon credit availability to cover Barossa's compliance liability in a timeframe that enables the joint venture to make decisions on the timing of project start-up. Once started, the project must continue production to meet its obligations under already executed long-term gas contracts which extend to at least 2035.

Similarly, we seek a guarantee that the use of offsets will be an acceptable way to meet net reservoir CO2 requirements for the purposes of all necessary project approvals, including from NOPSEMA, for the life of the project.

Further, given the retrospectivity of the policy change and the way in which it targets one particular project, Santos and our joint venture partners consider there is a case for carbon credits to be granted on a zero-cost basis for a period of time while Bayu-Undan and/or other CCS options are developed. This could be constructed so as to create alignment and incentivise both the government and the joint venture to focus on accelerating the development of Bayu-Undan and other CCS options in the region.

No discount or limiting of ACCUs

I appreciate your confirmation that you do not plan to limit or discount the use of prescribed carbon credit units by regulation. However, I note your reference that such changes might be considered in the 2026-27 review of the Safeguard Mechanism. The continuing threat of further retrospective changes to the Safeguard Mechanism for existing and/or sanctioned projects is of great concern to Santos and our joint venture partners.

Santos has an active interest in the items flagged for review in 2026-27, including international credits given our operational footprint in Papua New Guinea and Alaska. I would welcome the opportunity for Santos to engage further on these matters as the Department's work on the Safeguard Mechanism develops.

Darwin LNG treatment

As you are aware, the changes to the treatment of reservoir CO2 will not only affect the Barossa project, but will have flow-on effects to the Darwin LNG plant, despite it being an existing facility with different investor interests.

Your letter outlines that different treatment for the CO2 vented at the existing DLNG plant would be inconsistent with your policy. However, it is also inconsistent with the personal assurance I was given at the time of announcement that Darwin LNG as an existing facility would not be affected and the government's repeated claims that the policy changes would not affect existing facilities. Darwin LNG is an existing facility which has been processing gas from Bayu-Undan since 2006.

There will be no change to the emissions profile at Darwin LNG as a result of Barossa gas coming online. Darwin LNG was designed to handle gas with a CO2 content of approximately six per cent and has regulatory approvals in place for that. Bayu-Undan gas at the inlet to Darwin LNG has the same reservoir CO2 content as the gas that will come from Barossa into Darwin LNG following initial treatment on the Barossa offshore facility. Hence Darwin LNG would continue to operate much as it does today. The Safeguard Mechanism changes unfairly penalise Darwin LNG which is an independent joint venture entity that is being paid by the Barossa joint venture to process its gas.

Again, I seek your reconsideration of our previous request to honour the government's commitment to apply the Safeguard Mechanism changes only to new facilities, not existing facilities such as Darwin LNG. Further, Santos requests that Darwin LNG be subject to the new baseline reduction guidelines to 2030 rather than having the production variable for reservoir emissions at Darwin LNG set at zero. Darwin LNG is a trade-exposed facility no different to a manufacturing facility that does not control gas feedstock quality.

Bayu-Undan CCS

While I appreciate your assurance that it is not yours or the government's intention that the Safeguard Mechanism changes would adversely affect the future of the Barossa project, this does not reflect the reality of the consequences to us of the policy changes. Reservoir CO2 is a factor of the natural geology and geochemistry of any gas field, not any controllable process factor. It is therefore of critical importance that the Barossa joint venture is able to realise opportunities for CCS, noting that the fastest and lowest-cost option is expected to be Bayu-Undan.

Santos has been proactively and voluntarily pursuing a CCS solution for Barossa's CO2 emissions for the past two years independent of the Safeguard Mechanism changes. As you know, the proposal involves using existing infrastructure and depleted reservoirs associated with the Bayu-Undan gas field located offshore Timor-Leste after gas production ceases later this year.

The Barossa joint venture has already taken the significant risk of making a final investment decision and committing approximately US$700 million for the Darwin Pipeline Duplication Project, specifically to enable Bayu-Undan CCS. This risk has been taken despite prerequisite regulatory frameworks not yet being in place to clear the way for a final investment decision on Bayu-Undan CCS.

To support a final investment decision for Bayu-Undan CCS, Australian Government action is urgently needed to ratify amendments to the London Protocol, pursue and execute bilateral agreements with Timor-Leste, grant CO2 export licences and prioritise the processing and determination of regulatory approvals. The timeframe for Bayu-Undan CCS is almost entirely dependent on the implementation of actions by governments (both Australia and Timor-Leste) that are outside Santos' control. As I mentioned earlier, this project is important for Timor-Leste to help replace Bayu-Undan gas production which has provided the vast majority of the country's revenues and gross domestic product for many years.

I appreciate your assurance that the government is committed to implementing policy frameworks that will provide certainty for the development of emissions reduction projects like CCS, however, as discussed above, I am extremely concerned that your department is contemplating timeframes of seven years and more as being potentially necessary and acceptable. As above, **I am therefore seeking your commitment to ensure the regulatory agencies are also sufficiently motivated to have the necessary frameworks in place within the next year so the joint venture partners can take a final investment decision on Bayu-Undan CCS and commence construction.**

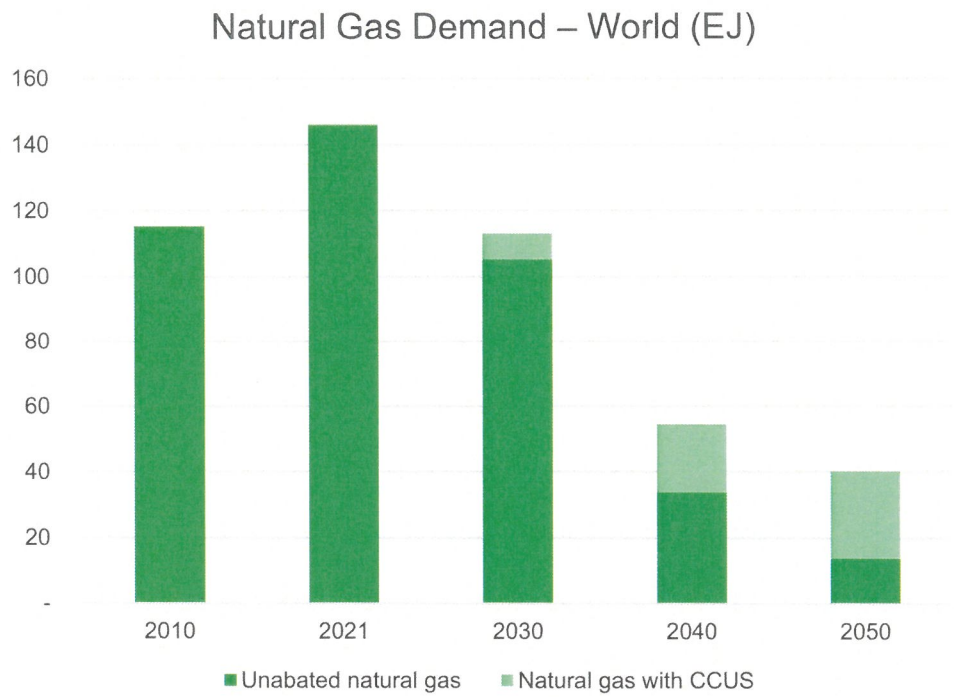
Further, I seek your commitment to treat CCS on a technology-neutral basis in all government programs for clean energy technology as is the case in the United States and many other jurisdictions.

CCS technology is proven and has been operating around the world for decades, and the rapid acceleration of CCS deployment globally at scale is critical in any credible pathway to net zero by 2050. Australia has an enormous competitive advantage in CCS on many fronts, yet we are at risk of losing this new clean energy industry opportunity to other countries such as the United States, Indonesia and Malaysia.

Role of Gas – Future Gas Strategy

I acknowledge the Government's imperative to meet the recently legislated 43 per cent emissions reduction target by 2030. Abated natural gas will have a significant and growing part to play in Australia's and the global energy mix for decades to come. Even the most aggressive climate scenarios see the world demanding about 40,000 petajoules of natural gas per year in 2050, nearly seven times Australia's production today. By 2050, almost 70 per cent of global gas demand would be served with abated natural gas through CCS. Australia's gas industry will remain important for Australia and Asia for decades to come, with gas demand in Asia forecast to grow by around 50 per cent between now and 2050 (Wood Mackenzie March 2023). As noted in the International Energy Agency's World Energy Outlook 2022:

"Cutting investment in fossil fuels ahead of scaling up investment in clean energy pushes up prices but does not necessarily advance secure transitions."



International Energy Agency World Energy Outlook 2022

Australia has a responsibility to use its competitive advantage in both gas and CCS for the betterment of the nation and to support regional stability by providing energy security and carbon solutions for our trading partners and allies in Asia.

Failure to deliver on this opportunity will not mean gas consumption reduces, but it will mean Australian jobs, business opportunities and economic development associated with gas development are lost to places like the United States, the Middle East, Russia and Africa. Wood Mackenzie's March 2023 global gas outlook (attached) shows production in the United States and Qatar growing rapidly to meet demand in 2050, Russia and Mozambique also growing production, but Australian production slowly declining. This is despite our enormous competitive advantage in gas, our proximity to Asian markets and our competitive advantage in being able to offer large-scale CCS to manage not only Scope 1 and 2 emissions, but Scope 3 emissions as well. Under current policy settings, Australia is set to simply lose market share without any emissions reduction benefit as gas demand continues to rise in our region. A corollary of this is that the Australian domestic gas market will suffer as domestic customers lack the scale to underpin large-scale gas field development for their own needs, necessarily exposing them to imports and unmitigated international gas prices over time.

While I was in Asia last week, I was approached regarding two opportunities for green steel manufacturing in Australia, using abated gas through CCS and, depending on technology progressions, potentially transitioning to synthetic methane (or e-methane) or hydrogen over time. These are very exciting industry opportunities for Australia that could bring enormous economic benefits to the country for decades to come. However, it was also made clear to me that Malaysia, because of its support for both gas and CCS, is a strong competitor for Asian investment in green steel.

The recent budget announced the government's intention to develop a Future Gas Strategy. This is welcomed by Santos and I strongly request that industry be involved in the development of this strategy. Given the role gas will play in supporting cleaner, affordable and reliable energy supply in Australia and Asia, it is imperative those experienced in energy markets and production are involved in its development. Whilst government may be advised to exclude the industry from this process, there is a compelling case to include the sector that has for decades invested in energy resources and development in this country, has developed skills and expertise in energy production, handling, storage and transport, and in energy markets in both Australia and Asia. As United States' Energy Secretary Jennifer Granholm said when she addressed the Sydney Energy Forum last year:

Santos

"This transition does not have to spell the end for today's fossil fuel companies. Their products will continue to play a role in the years ahead. And their assets, experience, and skilled workforce will play a role for decades to come. As the United Nations' Intergovernmental Panel on Climate Change has made clear, the only plausible pathways to net-zero involve carbon management solutions—carbon capture and storage, direct air capture, so forth. These fossil fuel companies can stake out a place on the other side of the transition by helping us pioneer those solutions."

I would go further and add that, without the involvement of these companies, the energy transition will be slower than governments want because their capital and their expertise is essential to drive technology development, accelerate deployment of large-scale carbon sequestration and negative emissions technologies, and drive energy market transitions with customers.

In closing, Santos took a final investment decision on Barossa in March 2021 following acceptance of the Offshore Project Proposal by the regulator, NOPSEMA, in March 2018, subsequent environment plan acceptance for both pipelaying and drilling and the award of a production licence by NOPTA in July 2020, conferring the lawful property right to extract and sell gas from the title area. Since that time, the Barossa joint venture has spent around US$1.6 billion developing the project and has made further construction and operating financial commitments of approximately US$2.9 billion. The project is more than 55 per cent complete. Barossa gas has already been sold under long-term contracts with an expectation of first gas production in 2025.

Resolution of the issues I have raised above is critical for our decision making in relation to timing and other project matters, and I would appreciate your urgent consideration of them. Given some of the matters covered in my letter extend into the portfolio of the Minister for Resources and Northern Australia, I have copied Minister King.

Yours sincerely

K. T. Gallagher

Kevin Gallagher
Managing Director and Chief Executive Officer

cc: The Hon Madeleine King MP, Minister for Resources and Northern Australia