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18 February 2020

Committee Secretary
Senate Standing Committees on Economics
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Sir/Madam,

RE: COMMENT ON OFFSHORE PETROLEUM AND GREENHOUSE GAS STORAGE AMENDMENT (BENEFIT TO AUSTRALIA) BILL 2020

The Australian Petroleum Production & Exploration Association (APPEA) welcomes the opportunity to provide comment on the *Offshore Petroleum and Greenhouse Gas Storage Amendment (Benefit to Australia) Bill 2020*.

The Bill seeks to insert an expanded objects clause into section 3 of the *Offshore Petroleum and Greenhouse Gas Storage Act 2006* (the Act) to 'ensure that the exploitation of offshore petroleum and greenhouse gas substances is for the benefit of the Australian community'.

APPEA supports, and agrees, that the development of natural resources should be for the benefit of the Australian community. Resource development has helped underpin the growth of the Australian economy since before federation and will continue to do so for centuries more.

The effect of this amendment, however, will do the opposite and will stymie investment.

APPEA notes that the asserted purpose of this Bill in the Explanatory Memorandum (EM) is to 'ensure that NOPTA, NOPSEMA and the Joint Authorities interpret the Act taking into account the benefit of the Australian Community when granting leases'. The EM further claims that 'foreign owned integrated gas businesses currently hoard proven and probable gas leases, some for more than 30 years, when they could be capitalised on by businesses that are ready and willing to go into production'.

Claims that companies are 'hoarding' resources have been proven incorrect, to the Joint Authorities¹², and changing the objects clauses of the Act, under which hundreds of billions of dollars of investment have been made, drastically increases Australia's sovereign risk for no material gain. A detailed analysis of the contribution the Australian oil and gas industry makes to the economy was prepared as part of APPEA's submission to the Senate Inquiry into Australia's oil and gas industry³.

APPEA does not support the Bill and rejects the claims made in the EM and second reading speeches.

¹ See NOPTA - re-evaluation of commercial viability of 10 Retention Lease in offshore Western Australia and eight retention leases in offshore Victoria and Tasmania in accordance with section 136(5) of the Act.

² [Review of the S.E. Australian offshore petroleum leases | Ministers for the Department of Industry Science Energy and Resources](#)

³ [Submissions – Parliament of Australia \(aph.gov.au\)](#)



The (then) COAG Energy Council conducted a comprehensive review of offshore and onshore retention lease arrangements in 2018, with a report released in March 2018⁴. The analysis conducted for the review concluded:

- *there was no evidence gas is being withheld (or warehoused) from development and production.*
- *tenure regimes in Australia are effective in supporting exploration and development and provide sufficient flexibility to address the challenges of commercialisation presented by individual fields or resources.*
- *the average time for a resource to be held under retention lease was 10 years, and approximately 89 per cent of all leases have been renewed fewer than three times.*
- *support for the industry, such as cooperation in infrastructure, provides a better opportunity to bring forward the commercial development of resources than modifying or the retention lease system.*

It is important to remember that the complexities associated with Australia's offshore gas landscape - Australia's vast size, remote terrain, and distance from markets (both domestic and export) – renders many individual discoveries / lease areas to be sub-economic. Moreover, many lease areas which contain smaller / stranded discoveries cannot individually underpin the major infrastructure required to undertake further high-cost exploration and/or development activities. Such commercial challenges persist regardless of who it is that is trying to develop the resource. In contrast, aggregating resources helps to justify the substantial financial investment required to commercialise discoveries.

The proposals in the Bill and EM will not deliver additional benefit to the Australian community. In fact, the proposed amendments are likely to have the opposite effect by stifling investment and stranding resources that will not be developed. Undeveloped resources deliver no economic benefit to Australia.

Oil and gas projects are complex and the retention lease system and supporting processes provide a pathway for the earliest possible commercialisation. The retention lease system allows the pooling of nearby resources into a combined development concept which improves the economic viability provided that the right investment settings are in place.

The retention lease system also ensures that third party access is available to multi-user infrastructure. These features were a fundamental part of the design of the retention lease system, a system that was instituted by Australian jurisdictions to *increase* the commercial potential of petroleum resources and to provide security of tenure for their discovered and stranded resources.

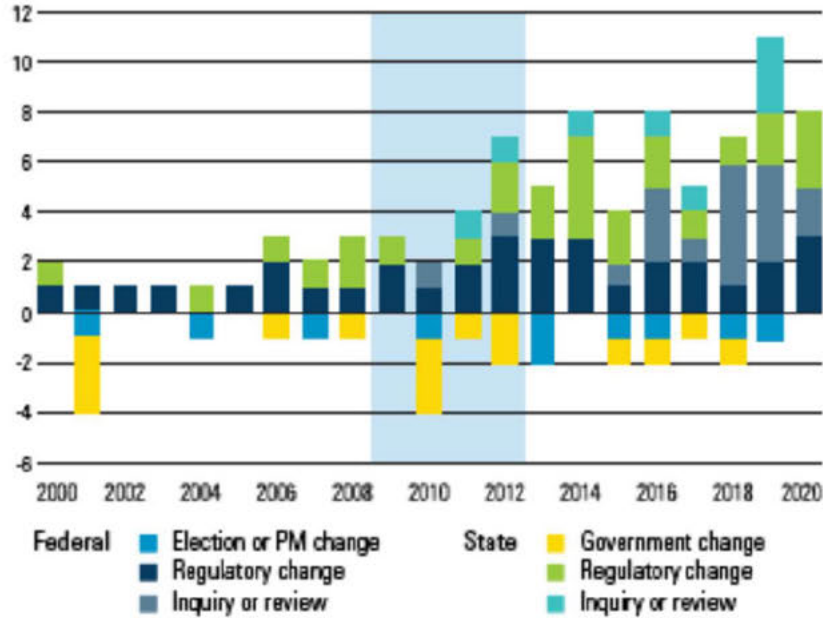
Further adjustments also impact the attractiveness of Australia as investment destination, especially at a time where investment is critical for sustained investment and development that provides long-term, secure employment opportunities.

The substantial investment made (circa. \$450 billion) between 2009 and 2012 was done on the back of sound, stable and competitive regulatory frameworks that supported the development of resources for the benefit of all Australians. This landscape has significantly shifted since this period as emphasized by the diagram below (see Chart 1).

⁴ See [COAG Energy Council Review of Petroleum Licensing Regulations | Energy Council](#).



Chart 1: Australian state and federal legislative changes, inquiries and reviews directly impacting Australia’s attractiveness as an investment destination



Source: Wood Mackenzie

While it is an established and accepted concept that the regulator can, and routinely does, challenge and review the commerciality of a particular retention lease⁵, the potential for a government to remove a discovered resource after a company has spent many hundreds of millions in exploring for that resource represents an unacceptable increase to Australia’s sovereign risk. This perception applies to all sectors, not just oil and gas resources.

APPEA recommends that the Bill be rejected, and instead Government and Members should work with industry to understand the commercial drivers and requirements for resource development to occur in Australia.

Yours sincerely



Andrew McConville
Chief Executive
APPEA.

⁵ See NOPTA Guideline – Grant and administration of a retention lease and related matters (2019) – page 12 of 18 – *Third party submissions.*