Greater Sunrise Unitisation Agreement Implementation Bill 2004
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22 March 2004
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Greater Sunrise Unitisation Agreement
Implementation Bill 2004

Date Introduced: 10 March 2004
House: House of Representatives
Portfolio: Industry, Tourism and Resources

Commencement: Sections 1 to 3 commence on Royal Assent. Items 1 to 86 in Schedule 1 commence on a day to be fixed by Proclamation. (Various other provisions are connected with related legislation and their commencement times are detailed in Clause 2 of the Bill).

Purpose

The purpose of the Bill is to give effect to the International Unitisation Agreement (IUA) between Australia and the Democratic Republic of Timor-Leste (East Timor) for the joint development of the Greater Sunrise gas field in the Timor Sea. The IUA (which was signed in Dili on 6 March 2003) provides a framework for the administration of a shared resource development where the resource straddles territorial boundaries.

Background

Timor-Leste

As a courtesy, it is noted that the nation of East Timor prefers the name Timor-Leste, which is used in the text of the IUA. For convenience, references in this Digest to East Timor are consistent with the name used in the separate 2002 Timor Sea Treaty and these references are used interchangeably with the name Timor-Leste. The text of the Timor Sea Treaty (which has been ratified) is available via the Department of Foreign Affairs and Trade web site.¹

Timor-Leste has a population of 800,000 within a country of 14,874 sq. km. Timor-Leste's economic long-term survival depends on the development of the rich oil and gas reserves in the Timor Sea. The Head of State of Timor-Leste is His Excellency President Kay Rala Xanana Gusmao and the Head of Government is Prime Minister Dr Mari Alkatiri.

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Timor-Leste separated from Indonesia on 26 October 1999 and after a period of civil unrest, which was brought under control by United Nations peacekeepers, became an independent nation on 20 May 2002. Australia has received positive international recognition for its significant and on-going contribution in assisting its near neighbour to stem the civil unrest and bloodshed in the lead-up to Timor-Leste's independence.

The separate issue of the development of the petroleum deposits (e.g. oil, gas and condensate) in the Timor Sea predates Timor-Leste's independence and there remain unresolved territorial border issues affecting this important resource. These competing claims concern maritime delimitation. Timor-Leste was formerly a Portuguese dependency (prior to Indonesian annexation of Timor-Leste in 1975) and Portugal maintained that the boundary line between Australia and Timor-Leste was the median distance between Australia and Timor-Leste. Australia maintains that the boundary is delimited by the Timor Trench, a deep seabed depression closer to Timor-Leste and which Australia asserts is the edge of Australia's continental shelf. Indonesia recognised Australia's position during the time that Indonesia governed Timor-Leste.

Under the separate Customs Act 1901, Timor-Leste is accorded status by Australia as a Least Developed Country.

**The Obligation to have a Unitisation Agreement**

The Timor Sea Treaty was signed by Australia and East Timor in Dili on 20 May 2002 and entered into force on 2 April 2003. The Timor Sea Treaty remains in force for 30 years. Annexe E to the Timor Sea Treaty obliges Australia and East Timor to agree on an International Unitisation Agreement (IUA) for the petroleum resources contained in the Greater Sunrise and Troubadour deposits that lie below the seabed of the Timor Sea. 'Greater Sunrise' and 'Troubadour' are collectively referred to as the Greater Sunrise gas field. The IUA is necessary because the resource overlaps with the Joint Petroleum Development Area (JPDA) formerly known as the 'Timor gap' which is also the subject of the Timor Sea Treaty. It is important to note that the IUA is not prejudicial to any unresolved territorial claims. The Timor Sea Treaty states:

Annexe E under Article 9(b) of this Treaty

Unitisation of Greater Sunrise

(a) Australia and East Timor agree to unitise the Sunrise and Troubadour deposits (collectively known as 'Greater Sunrise') on the basis that 20.1% of Greater Sunrise lies within the JPDA. Production from Greater Sunrise shall be distributed on the basis that 20.1% is attributed to the JPDA and 79.9% is attributed to Australia.

(b) Either Australia or East Timor may request a review of the production sharing formula. Following such a review, the production sharing formula may be altered by agreement between Australia and East Timor.

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(c) The unitisation agreement referred to in paragraph (a) shall be without prejudice to a permanent delimitation of the seabed between Australia and East Timor.

(d) In the event of a permanent delimitation of the seabed, Australia and East Timor shall reconsider the terms of the unitisation agreement referred to in paragraph (a). Any new agreement shall preserve the terms of any production sharing contract, licence or permit which is based on the agreement in paragraph (a).3

East Timor's share of the Greater Sunrise gas field is calculated by reference to the agreed formula that applies to the sharing of the separate JPDA, where East Timor has title to 90% of the petroleum resource. This means that East Timor receives 90% of the 20.1% allocation from the Greater Sunrise field that goes to the JDPA i.e. some 18%. Australia's share is the remainder i.e. 10% of the JDPA and 79.9% of the Greater Sunrise gas field. Allowing for the calculations involved, Australia's actual share of the Greater Sunrise gas field is some 82%.

The Financial Impact Statement included in the Explanatory Memorandum to the Bill states that the development of the Greater Sunrise gas field is expected to yield Australia $8.5 billion in revenue over the life of the project.

The Timor Sea Treaty was the subject of package of legislation that was given urgent passage by the Australian Parliament in 2003. The primary Bill in that package became the Petroleum (Timor Sea Treaty) Act 2003.4 The Department of Foreign Affairs and Trade has an explanatory National Interest Analysis on the Timor Sea Treaty on its web site.5

The full text of the subsequent IUA, which is the subject of this Bill, is also located on the Department of Foreign Affairs and Trade web site.6

**Greater Sunrise Gas Field: IUA Negotiations**

Evidence given to the Joint Standing Committee on Treaties (JSCOT) at a hearing on 23 June 2003 contained a summary of the resource potential of the Greater Sunrise gas field and the rationale for the IUA. JSCOT was given the following information by the Department of Industry, Tourism and Resources:

The Greater Sunrise gas field…lies in the Timor Sea, some 500 kilometres north-west of Darwin.

…

The Greater Sunrise field is a world-class petroleum resource containing an estimated 8.4 trillion cubic feet of natural gas and 295 million barrels of condensate. It is estimated that 20.1 per cent of these resources lie within the JPDA—the joint petroleum development area—and 79.9 per cent lie outside it. This apportionment ratio was included in the Timor Sea Treaty. It is estimated that if the field is
developed using a floating gas-to-liquids technology then revenues to Australia will be around $8.5 billion over the life of the project with exports of around $1.5 billion annually. Its development will also provide significant revenue to East Timor. The efficient development of a petroleum field requires that it be developed in an integrated way.

…

Negotiations on the international unitisation agreement were complex, especially in relation to ensuring that it was substantively without prejudice to either country's maritime boundary claims and in respect of fiscal arrangements. The final IUA therefore represents a negotiated outcome. The IUA was signed by East Timor and Australia on 6 March 2003. The IUA provides a comprehensive framework for the development of the Greater Sunrise field. It covers matters such as the administration of the unit area, taxation, the method and point of valuation for petroleum produced the approval of development plans, employment and training, abandonment provisions, the use of facilities by other developments, occupational health and safety, environmental protection, customs, security and dispute resolution procedures. The IUA meets all of Australia's primary objectives. It provides for a single administrative system to apply across the whole unit area—and a map of the area is included in annex 1 of the IUA—both inside the JPDA and outside the JPDA with regard to such matters as health and safety and the environment which provides for administrative efficiency.

In other respects, where appropriate it provides for Australian law to apply in that part of the unit area outside the JPDA and for the regime established by the Timor Sea Treaty to apply within the JPDA, thus not prejudicing Australia's maritime boundary claims. It provides the comprehensive fiscal framework which was needed to provide investors with the certainty that they need to make investment decisions. The fiscal terms defined in the IUA apply to that portion of the production attributed to the JPDA where 90 per cent of production is attributed to East Timor and 10 per cent to Australia. Normal Australian arrangements would apply to that portion of production attributed to Australia. The IUA meets all of Australia's primary objectives. It provides for a single administrative system to apply across the whole unit area—and a map of the area is included in annex 1 of the IUA—both inside the JPDA and outside the JPDA with regard to such matters as health and safety and the environment which provides for administrative efficiency.

JSCOT supported the agreement and recommended that it be ratified.

When this Bill was urgently debated in the House of Representatives on 10 March 2004, Mr Joel Fitzgibbon MP, the Shadow Minister for Mining, Energy and Resources, queried the urgency of the debate, given that the Parliament had waited one year after the urgent consideration of the Petroleum (Timor Sea Treaty) Bill 2003 to debate this bill that will give legislative effect to the separate IUA covered by the Timor Sea Treaty. The Minister for Industry, Tourism and Resources, Hon Ian Macfarlane MP, responded in closing the debate that the urgency for legislative coverage for the IUA is because there is a 'window of opportunity to see these Sunrise resources developed'.

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Referral to Senate Economics Legislation Committee

The Bill was referred to the Senate Economics Legislation Committee on 10 March 2004 and the Committee is due to report back to the Senate on 23 March 2004.

Press Commentary: Energy Security for the Pacific Rim

Ian Howarth in the *Australian Financial Review* of 11 March 2004 notes that the partners in the Greater Sunrise gas field are Woodside Petroleum (33.4%), ConocoPhillips (30%), Shell (26.6%) and Osaka gas (10%) and that liquefied natural gas (LNG) from the field could be sold to South-East Asia and to the west coast of the United States. It is reported that Timor-Leste is trying to encourage the partners to locate a floating LNG processing plant in Timor-Leste's waters rather than bring the gas by pipeline to Darwin to process it with the Bayu–Undan gas.

The January 2004 edition of *Jane's Intelligence Review* contains an article by Nick Horden that outlines the importance of LNG to Pacific Rim countries as an alternative to Middle East oil and gas. Importers such as Japan, China, South Korea, Taiwan and the Philippines are looking to LNG as a cleaner fuel to oil. The location of the resource in East Asia also has the likely advantage of better security of supply.

*The Australian* of Thursday 11 March 2004 contains an article by Nigel Wilson and Roy Eccleston reporting on a call by influential members of the United States Congress for Australia to fair in its dealings with East Timor. It is reported that Democrat Barney Frank along with 53 colleagues in the United States Congress has written to the Prime Minister, Hon John Howard MP about the matter. Congressman Frank is reported as saying that Australia should:

> [M]ove seriously and expeditiously with East Timor to establish a fair, permanent maritime boundary and an equitable sharing of oil and gas resources in the Timor Sea.

> …

> Given the overlapping claims of the two counties, we would strongly hope that any revenue from disputed areas be held in escrow until a permanent boundary is established.

The *Sydney Morning Herald* reported on 4 February 2003, that the Federal Court of Australia had ruled that it could not hear a claim by a US oil company, PetroTimor, a subsidiary of Oceanic Exploration, for $2 billion dollars compensation for alleged loss of rights it had been granted by Portugal in March 1974 to develop oil and gas reserves in the Timor Sea. The reserves are now being developed by Australia and other countries. The Federal Court relied on an accepted legal doctrine that Australian courts will not enforce rights granted by a foreign sovereign. A $30 billion lawsuit has now been filed in Washington in the United States of America.

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Comments by the Australian Labor Party

As noted above, Mr Joel Fitzgibbon MP, the Shadow Minister for Mining, Energy and Resources, queried the urgency of the debate during the Second Reading in the House of Representatives on 10 March 2004, given that the Parliament had waited one year after the urgent consideration of the Petroleum (Timor Sea Treaty) Bill 2003 to debate this bill that will give legislative effect to the separate IUA covered by the Timor Sea Treaty. The Labor Party, however, expressed support for the legislation but also noted that the accompanying Customs concessions should be tied to a requirement for the major oil companies involved to source machinery and equipment from Australia, where possible.

Comments by the Australian Greens

The Australian Greens have announced that they oppose the legislation. Both the Leader of the Australian Greens, Senator Bob Brown, and Mr Michael Organ MP, issued media releases on this matter on 10 March 2004.

In his media release, Senator Brown has queried whether East Timor is being treated fairly in terms of the division of the rich asset. Senator Brown and Mr Organ have also noted the current disputes over the maritime boundary and the competing legal claim concerning the right to exploit the oil and gas reserves in the Timor Sea, respectively.

Comments by the Australian Democrats

When the package of bills that comprised the Timor Sea Treaty was urgently debated in the Senate on 6 March 2003, the Australian Democrats noted that East Timor wanted the IUA dealt with independently of the Timor Sea Treaty. As noted above, the text of the IUA was, however, signed on 6 March 2003. The Australian Democrats pointed out that East Timor was asked to sign the IUA before ratification of the Timor Sea Treaty itself and that that situation may not be in East Timor's long-term interests.

Main Provisions

The collective references to the Greater Sunrise areas also include the Eastern Greater Sunrise area and the Western Greater Sunrise area. The demarcation is necessary because the Eastern Greater Sunrise area is currently administered by the Australian and Northern Territory Governments. The Western Greater Sunrise area is administered by the Timor Sea Treaty Designated Authority under the Timor Sea Treaty.

Designated Authorities are involved in the local management of resources and are usually under the administration of a State or Territory Minister. However, in the case of the Eastern Greater Sunrise area, the administration will be the sole responsibility of the
Commonwealth. The Commonwealth Minister, alone, will also discharge the duties of the Joint Authority for the Easter Greater Sunrise area. Usually, a Joint Authority comprises both Commonwealth and a counterpart State or Territory Minister. This approach will allow the administrative arrangements in both the Eastern Greater Sunrise area and the Western Greater Sunrise area to operate in concert.

As noted in the General Outline of the Explanatory Memorandum to the Bill, under the IUA Australia and Timor-Leste have specified that the following Australian laws will apply in the Greater Sunrise gas field:

**Article 19 - Safety**

*Petroleum (Submerged Lands) (Management of Safety on Offshore Facilities) Regulations*

*Limitation of Liability for Maritime Claims Act 1989*

*Navigation Act 1912*

*Radiocommunications Act 1992*

*Seafarers Rehabilitation and Compensation Act 1992*

**Article 20 - Health**

*Petroleum (Submerged Lands) (Occupational Health and Safety) Regulations*

*Occupational Health and Safety (Maritime Industry) Act 1993*

*Navigation Act 1912*

*Seafarers Rehabilitation and Compensation Act 1992*

**Article 21 - Environmental Protection**

*Petroleum (Submerged Lands) (Management of Environment) Regulations 1999*

*Protection of the Sea (Civil Liability) Act 1981*

*Protection of the Sea (Oil Pollution Compensation Fund) Act 1993*

*Protection of the Sea (Imposition of Contributions to Oil Pollution Compensation Fund - Customs) Act 1993*

*Protection of the Sea (Imposition of Contributions to Oil Pollution Compensation Fund - Excise) Act 1993*

*Protection of the Sea (Imposition of Contributions to Oil Pollution Compensation Fund - General) Act 1993*

*Protection of the Sea (Powers of Intervention) Act 1981*

*Protection of the Sea (Prevention of Pollution from Ships) Act 1983*

*Protection of the Sea (Shipping Levy) Act 1981*²⁰

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Schedule 1—Petroleum (Submerged Lands) Act 1967

Part 1—Amendments implementing the Greater Sunrise unitisation agreement

The Petroleum (Submerged Lands) Act 1967 (PSL Act) implements the arrangements between the Commonwealth, the States and the Northern Territory concerning the exploration for and the exploitation of offshore petroleum resources.

Section 5 of the PSL Act provides the definitions used in that Act. Items 1 to 7 in Schedule 1 to this Bill provide additional definitions and amendments to existing definitions to bring within the PSL Act references that are applicable to the Greater Sunrise areas covered by the IUA. The actual coordinates of latitude and longitude that define the areas are found in the proposed Schedule 8—Greater Sunrise areas at item 110.

Section 8A of the PSL Act enables 'Joint Authorities' to be established comprising Commonwealth and State and Commonwealth and Northern Territory ministers to deal with petroleum exploration and development issues. Sections 8B to 8H of the PSL Act deal with functions, procedures and delegations relevant to Joint Authorities. Items 18 to 25 in Schedule 1 to the Bill amend sections in the PSL Act to recognise the Greater Sunrise development in the context of the existing Joint Authorities.

Item 26 inserts proposed new sections 8J and 8K in the PSL Act to authorise the proposed new Greater Sunrise Off-Shore Petroleum Joint Authority (or its delegate) to consult with the Timor Sea Treaty Designated Authority to keep faith with the agreed obligation for Australia and East Timor to exchange information relevant to the Greater Sunrise areas.

Part III of the PSL Act deals with 'Designated Authorities' which deal with mining for petroleum. A Designated Authority is a State or Territory Minister or a fellow Minister acting for the Minister. Item 29 inserts proposed new sections 14A and 14B to recognise the Greater Sunrise areas, including an authority to be called the Eastern Greater Sunrise Authority.

Under the PSL Act, a person is not permitted to recover petroleum reserves in specified areas unless they have a licence issued under the PSL Act. Royalty payment obligations are also applied. Section 43 of the PSL stipulates the notification requirements concerning the issue of a licence by the relevant Joint Authority. Item 33 inserts a proposed new subsection 43(1A) to specify that the proposed Greater Sunrise Off-shore Petroleum Joint Authority must notify the Timor Sea Treaty Designated Authority that it is proposing to issue a licence.

The PSL Act stipulates that infrastructure and pipelines constructed and used in specified areas must be licensed. Licenses and titles that are issued must be registered. Items 36 to 55 of Schedule 1 to the Bill are minor technical amendments that are necessary to

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recognise that the proposed Eastern Greater Sunrise area is only a part of the Greater Sunrise areas but that the Eastern Greater Sunrise area has its own Designated Authority.

A Designated Authority may give written directions to a licensee operating in specified areas, including directions about the removal of infrastructure or property or the closing-off of a well. In certain circumstances this may result in the 'acquisition' of property by the Commonwealth. Items 57 to 70 recognise that the proposed Eastern Greater Sunrise area has its own Designated Authority and it may issue such directions.

Items 71 to 80 are minor technical amendments that are necessary to recognise that the proposed Eastern Greater Sunrise area has its own Designated Authority for the issue of 'access authorities' to areas outside but related to the licensee's own licensed area. Items 81 to 83 are minor technical amendments to enable the Designated Authority for the proposed Eastern Greater Sunrise area to obtain relevant information concerning operations in specified areas.

Items 84 to 100 are minor technical amendments to the PSL Act to recognise the proposed Eastern Greater Sunrise area for the purposes of safety zones, record keeping by those operating in the specified area, authorisation for scientific work and the powers of inspectors under the PSL Act.

Item 103 amends section 127 of the PSL Act to clarify that the property in the recovered petroleum from the specified areas becomes the property of the person authorised to recover it but subject to the agreed apportionment percentage in the IUA settled between Australia and East-Timor.

Item 110 provides the coordinates of latitude and longitude that identify the Greater Sunrise areas, including the Eastern Greater Sunrise area.

Part 2—Technical corrections

Items 111 to 116 are minor technical drafting corrections to the PSL Act.

Schedule 2—Amendment of other Acts

Petroleum Resource Rent Tax Assessment Act 1987


Items 1 to 18 in Schedule 2 to the Bill are necessary to reflect the apportionment arrangement that attaches to the Greater Sunrise areas and the separate references to 'Greater', 'Eastern' and 'Western' fields (see the technical descriptions in Item 110 in
Schedule 1). A detailed technical explanation of the special tax rules that will apply is found in the Explanatory Memorandum (at pages 29 to 31).

**Radiocommunications Act 1992**

The Radiocommunications Act 1992 provides legislative authority for the management, by the Commonwealth, of Australia's radiofrequency spectrum.

*Items 19 and 20* apply the operation of the Radiocommunications Act 1992 to the Western Greater Sunrise area.

**Endnotes**


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14 ibid.


17 ibid., p. 25610.

