

Economics Legislation Committee
ANSWERS TO QUESTIONS ON NOTICE
Industry, Innovation and Science Portfolio
2016-17 Supplementary Budget Estimates
20 October 2016

DEPARTMENT: DEPARTMENT OF INDUSTRY, INNOVATION AND SCIENCE

TOPIC: Retention Leases on the Bass Strait

REFERENCE: Question on Notice (Hansard, 20 October 2016, page 135)

QUESTION No.: SI-42

Senator XENOPHON: Minister, you are familiar with the retention leases in the Bass Strait and the broad history of that. How much natural gas lies beneath the Bass Strait?

Senator Canavan: I would have to ask. Geoscience Australia would probably be our best bet. I do not believe we would have a firm estimate for you in any case.

Senator XENOPHON: Perhaps you can take that on notice.

Senator Canavan: Yes.

Senator XENOPHON: One figure that has been put to me is seven trillion cubic metres of gas either proven or probable. If you could take that on notice, Minister, because I have some broader issues I want to deal with.

Senator Canavan: Sure.

Senator XENOPHON: My understanding is that retention leases were introduced by the then petroleum minister Gareth Evans—that is a blast from the past—a number of years ago. I do not think you were born then.

Senator Canavan: I am reading his diary at the moment, but I am not up to that chapter.

Senator XENOPHON: Are you? His personal diary or a published diary?

Senator Canavan: His cabinet diary.

Senator XENOPHON: I do not think you were even born then, Minister.

Senator Canavan: I was born.

Senator XENOPHON: You were born just.

Senator Canavan: I remember it well.

Senator XENOPHON: They were introduced by petroleum minister Gareth Evans. Is it the case that we are the only OECD country that has these forms of leases?

Mr B Wilson: I would have to take that one on notice. I am not familiar enough with all the other overseas regimes to be able to answer that definitively.

Senator XENOPHON: Not all of them, not every 188 or whatever countries, just the OECD.

Mr B Wilson: No, all the other OECD regimes.

Senator XENOPHON: Is it fair to say that we are a bit of an outlier? I think it is unusual to have retention leases of this type.

Mr B Wilson: Our system was, as I understand it—and again I was not around when it was brought in designed to make Australia an attractive investment location. I understand all the regimes use slightly different concepts and titles. Some use production licences in the way we use retention leases. We can give you a fuller answer on notice.

ANSWER

1) Natural gas in Bass Strait

As stated in Geoscience Australia's latest edition of the *Australian Energy Resources Assessment* (AERA) the gas resources in the Gippsland Basin at the end of 2014 are estimated

as 7.76 trillion cubic feet, or 8,533 petajoules, and the remaining gas resources in the Bass/Otway basins at the end of 2014 are 1.54 trillion cubic feet, or 1,691 petajoules. The volumes reported are the sum of reserves and contingent resources at the proved plus probable level. The AERA can be found at www.ga.gov.au/aera.

2) Retention leases in other OECD countries

A retention lease could be described as a form of ‘holding’ title for petroleum discoveries which are currently non-commercial but likely to become so in the future. Australia is not the only OECD country that has a form of ‘holding’ title for petroleum discoveries.

For instance, Canadian petroleum legislation has a holding title called a ‘significant discovery licence’ which operates in a similar way to Australia’s retention lease system. The Canada-Nova Scotia Offshore Petroleum Board is the independent joint agency of the Governments of Canada and Nova Scotia responsible for the regulation of petroleum activities in the Canada-Nova Scotia Offshore Area. The Board may issue a significant discovery licence, which like a retention lease, sits between the exploration and production titles. The Board describes a significant discovery licence as: *‘The document of "title" by which an interest owner can continue to hold rights to a discovery area while the extent of that discovery is determined and, if it has potential to be brought into commercial production in the future, until commercial development becomes viable..... the term of a significant discovery licence is indefinite and was designed to maintain an explorer’s rights during the period between first discovery and eventual production’*.¹

Ireland also has a specific legislative mechanism for petroleum discoveries that are not yet considered commercially viable for development called a ‘lease undertaking’. Ireland’s Department of Communications, Climate Action & Environment describes a lease undertaking as follows: *‘When a discovery is made in a licensed area and the licensee is not in a position to declare the discovery commercial during the period of the licence, but expects to be able to do so in the foreseeable future, the licensee may apply for a Lease Undertaking. This is an undertaking by the Minister, subject to certain conditions, to grant a Petroleum Lease at a stated future date. The holder of a Lease Undertaking is required to hold a Petroleum Prospecting Licence which will govern activities under the Lease Undertaking’*.²

In both cases, these ‘holding titles’ are subject to work programs and compliance and regulatory mechanisms aimed at removing impediments to resource commercialisation to ensure timely development. This is not inconsistent with the mechanisms underpinning Australia’s offshore petroleum retention leases.

A number of other OECD countries, while not having specific ‘holding titles’ allow for extended timeframes under exploration and production titles in recognition of the time required to bring some resources to commercialisation.

For example, the UK’s Oil and Gas Authority (OGA) in its latest ‘Offshore Licensing Round’ launched in July this year introduced the ‘Innovate Licence’ concept.³ The OGA describes this licence as a ‘flexible and pragmatic approach to licensing which allows licensees to work with OGA to design an optimal work programme, ensure more appropriate phasing of activity, rental fees and competency tests and implements a stage-gate process for better monitoring of

¹ Refer to <http://www.cnlopb.ca/exploration/issuanceprocess.php> and <http://www.cnsopb.ns.ca/lands-management/licensing>

² Refer to <http://www.dccae.gov.ie/natural-resources/en-ie/Oil-Gas-Exploration-Production/Pages/Types-of-Authorisations.aspx>

³ Refer <https://www.ogauthority.co.uk/news-publications/announcements/2016/oga-launches-29th-offshore-licensing-round/> and <https://www.ogauthority.co.uk/licensing-consents/offshore-licences/>

progress'. This licensing acknowledges the inherent difficulties and long lead times associated with frontier exploration and development activities. It factors in the availability of extended licence terms for further appraisal work in the transition towards production.

Also, in New Zealand petroleum exploration permits are issued for up to 15 years, depending on the permit location. Following this, it is possible to obtain up to two extensions of up to four years each time for appraisal purposes in the transition towards commercialisation.⁴

It is important to note that the various petroleum licensing systems are typically designed in recognition of country-specific conditions including resource characteristics and economics, market factors, and industry maturity and structure. Retention leases were introduced in recognition of the conditions specific to Australia's offshore petroleum sector where there can be significant challenges to early commercialisation of resources due to the relative lack of infrastructure and other factors. They remain a fundamental component of our offshore petroleum regime.

⁴ Refer to <http://www.nzpam.govt.nz/cms/permits/petroleum/types>