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Senate inquiry needed into offshore petroleum management changes.

The DomGas Alliance has called for a Senate inquiry into proposed changes to Australia's system of managing offshore petroleum resources.

The changes were proposed in an interim report of a government-established review into the titles management system and include watering down the retention lease system to allow producers to hold fields for up to 15 years at a time.

The DomGas Alliance says the proposed changes would further entrench power in the hands of producers at the expense of Australia's domestic energy needs. The Alliance says no changes should be made before the Federal election and has cautioned the major parties about including the proposed changes as part of their election policies.

The Alliance commissioned an analysis of the current titles system by respected independent analysts "Innovative Energy Consulting" (IEC), which found the system had not delivered on its intended objective of ensuring Australia's gas resources are developed in a timely manner.

The IEC analysis confirmed that, when benchmarked against other comparable nations, Australia's titles regime is already "extremely flexible and lenient" and in some cases "appears to be unnecessarily lenient" and "effectively rewards gas explorers for doing less."

This had helped create a situation where:

"in comparison to the Gulf of Mexico and the North Sea the level of competition is very low, the cycle time from first discovery to production is extremely long, the term of licences is extremely long, the discovered gas reserves to production ratio is very high and access to gas related infrastructure is very poor."

DomGas Alliance Executive Director Matt Brown pointed to the recent non-decision on the Browse gas project – involving fields first discovered in the 1970s – as evidence the system was not working.

Mr Brown said the interim report was deeply flawed in that it simply promoted the wishes of producers rather than considering the energy needs of Australia's domestic industries.

"The non-government members were drawn solely from gas producers and the report's findings appear to be more about the self-interest of producers rather than the national interest of Australia's energy needs," Mr Brown said.

"It is unfathomable that a review which seeks to ensure Australia's system remains world's best practice did no analysis of or comparison to systems operating elsewhere in the world. It is even more extraordinary that the review completed no modelling and can produce no evidence to support its claim that the changes will 'stimulate continued and new investment'.

“There is, however, evidence that the changes will further encourage the warehousing of offshore resources by major producers for future LNG export sales at the expense of bringing this gas to fuel Australia’s domestic energy needs.”

Mr Brown said before the government considers adopting the interim report’s findings, the process needs to be opened up to independent and rigorous scrutiny.

“A behind closed doors working group dominated by producers is no way to manage Australia’s natural resources which, after all, are owned by the Australian people.

“We believe an independent review by the Senate Standing Committee on Economics would help bring some much-needed balance to this debate. The Committee could then draw on international best practice and consider all of the ramifications of the proposed changes, particularly their detrimental impact on Australian industry and jobs.

“It is important to understand that the big challenges facing gas producers in Australia do not relate to the title management system. Poor management decisions, major cost over-runs on projects, industrial relations issues, and excessive wage claims have all had a far greater impact on Australia’s reputation as an investment destination.

“There is no doubt that the current low oil price is creating an even more challenging environment for gas producers and is likely to delay investment decisions for any major new export project.

“Good public policy, however, should not be dictated by such fluctuations. It would be a significant error of judgment to make decisions affecting the long-term framework for managing Australia’s gas resources on the basis of what may prove to be short-term fluctuations in price.”

For further comment contact Matt Brown on 0419 813 171.

The DomGas Alliance submission in response to the interim report and the independent IEC analysis can be found at www.domgas.com.au

The key recommendations of the DomGas Alliance submission are:

1. That a reference be made to the Senate Standing Committee on Economics to conduct an inquiry into all aspects of Australia’s system for managing offshore petroleum resources, including:
 - Benchmarking against international practice;
 - Review of taxation arrangements, incentives and concessions, including comparison with those on offer in other jurisdictions;
 - Policies to encourage domestic supply focused projects;
 - Policy and legislative changes required to introduce greater competition into the sector by providing third party access to infrastructure, and;
 - Consideration of a national “stranded gas policy”.

2. That objective and outcome-based key performance indicators be developed to assess the performance of Australia's title system on its performance in achieving the stated aim of delivering timely development of gas resources, followed by accurate measurement and reporting with results compared to best in class.
3. That the final report of the Review considers and reports on the impact on domestic supply, and therefore domestic industry, of any proposed changes.
4. That moves to introduce further leniency into the current retention lease system be rejected as the evidence indicates they are detrimental to Australia's national interest.
5. That the maximum five-year retention lease period be maintained.
6. That greater transparency be introduced into the current retention lease system, particularly around the issue of producer claims regarding commercial viability.
7. That the current rolling 15 year window for commerciality be ended with a finite period set for moving from exploration to production. This should include provisions for the market to contest the title at the expiry of the period.
8. That, if adopted, the longer retention lease periods proposed in the report should not be retrospective in the sense that producers who have had multiple retention lease renewals should not have access to extended renewal periods in the future.
9. That the final report include a brief analysis and breakdown of the Commonwealth's record in monitoring renewal leases including the number of retention lease applications/renewal applications dealt with by the Commonwealth, the number of such applications which have been rejected, the number of rejections which have led to titles lapsing as opposed to those where developers have moved to apply for a production licence, and the number of cases/times the Commonwealth has intervened during a retention lease period to force a reassessment of commerciality.
10. That the Western Australian government rejects any suggestion that it remove itself from any decision-making processes under the current title management system.