

Agip Australia Limited

Agip Australia Limited

Level 3, 40 Kings Park Road, West Perth, Western Australia 6005

PO Box 1265, West Perth, Western Australia 6872

Telephone: +08 9230 1111

Facsimile: +08 9320 1100

Email: info@agipaustralia.com.au

ARBN: 009 475 389



SUBMISSION TO THE FEDERAL PARLIAMENT HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON INDUSTRY AND RESOURCES

Agip Australia Limited
Level 3, 40 Kings Park Road
West Perth

July 2002

1. Pre competitive information

The Australia Petroleum Exploration industry is unique in the world with respect to access to data. Following the expiration of confidentiality periods all companies are able to access exploration data at a reasonable cost. These data are very useful in assessing areas that past exploration inadvertently dismissed as non-prospective. There are many examples, but some include the Southern Bonaparte Basin – Blacktip Discovery, Eastern Dampier Sub basin – Wandoo Discovery, Barrow Sub basin – Woollybutt and Griffin Discoveries.

The majority of the pre competitive information that led to initial corporate exploration resulted from the precursor of Geo Science Australia, the Bureau of Mineral Resources (BMR). The BMR actively acquired new data in previously non or under explored areas both on and offshore. These works led to the significant discoveries of the Barrow Island Oilfield and Rankin Trend gas fields. Indirectly through the BMR a significant amount of early exploration was subsidised by the Commonwealth Government.

What has significantly changed is the erosion of funding to the Government geological agencies to the level that prevents the acquisition of meaningful new data. Previous inquiries have concluded that the role of acquiring new data can be left to the corporate industry by way of reinvesting producing profits. This potentially worked during the 1990's however it was primarily in proven petroleum basins.

During the 1990's the government agencies were not idle, significant work was done reinvestigating old data as well as looking at the less expensive exploration methods of remote sensing. This has now reached saturation level where by no new information is available to either government agencies or industry.

Why has industry reduced the investment in frontier areas? Australia is now considered a low priority for petroleum exploration investment by those companies investing on a global basis. Following the last oil price fall down less than US\$10/bbl in 1998, industry is more selective than ever about where to invest high risk capital. The competition for the exploration dollar to invest in attractive areas like Gulf Of Mexico, Offshore Brazil, Offshore West Africa, Caspian Sea and the North Sea is so intense that Australia tends to get what ever is left over. The pressure to deliver instant results on these precious exploration dollars prevents the long lead-time investment in frontier areas.

Successful exploration in Australian frontier areas is what will remove the perception that there are higher priority places to explore. Today Australia's frontier areas lack hard data, like seismic, to make a meaningful assessment.

Recommendation:

Consideration to high level funding of Geoscience Australia so that frontier basins seismic data can be acquired and or stratigraphic drilling can be carried out. The stratigraphic drilling would enable the identification of suitable sediments for prospective petroleum exploration and additionally provide evidence for the possibility of a petroleum system.

Alternatively there has been a lot of discussion about the relaxation of Australia's taxation regime to provide greater incentive for companies to explore remote areas. This can be a short sighted view as it would only encourage companies that currently have income to offset against potential exploration expenditure. The key driver for the future petroleum exploration industry of Australia is to attract new players who are yet to have production in Australia. The current methodology of tax incentives for spending exploration dollars encourages

consolidation of the industry to essentially acquire smaller Australian producing companies – Ampolex, Command Petroleum, and Cultus Energy to name a few that have disappeared.

Therefore there needs to be a way that activity is attracted in frontier basins. A worthy consideration is to use private seismic companies that acquire the data and market this to the industry. This has been somewhat successful for the seismic companies in areas of known petroleum provinces. This is only in proven petroleum areas to ensure that the seismic companies are able to deliver a return for their shareholders on their investment. They would all argue that acquiring data in a frontier area is going to be such a long-term return that it is uneconomic. The data would be priced at a level that would make it unattractive. However if the seismic companies were offered a position that the data could be acquired with a 150% tax rebate of their current income (if they didn't have current income then they would be out of business) and therefore were then regulated to pass this tax saving onto the industry, then the data would be cheaper and frontier precompetitive exploration could be assessed. It is proposed that Geoscience Australia would act as the facilitator between the seismic and oil companies to ensure that tax savings were passed on.

2. Awarding of Commonwealth Acreage

The time taken to offer exploration acreage in Australia following bid submission is nothing short of the World's worst practice. A review of bid submission dates and permit awards suggest approximately four to five months and sometimes 9 months elapses before exploration commences. For many companies this covers crucial budget revision dates, and the uncertainty about success of awarding acreage results in either a suspension of funds for other new venture projects or its complete removal of funds from Australia to areas where increased funding is required such as Gulf of Mexico. Government's need to understand that there is global competition for every exploration dollar spent in Australia.

Government staffing should be organised such that resources are available in the critical review times required after each bid submission date is announced. Given the relationship between the state and federal agencies, this review period should be completed in 2 weeks if the bids are clear-cut. The companies are advised, they have maximum 30 days to accept (This is appropriate and not need be taken) and award can follow shortly there after. Therefore as little as 3 weeks to a maximum of 7 weeks after bid submission.

Recommendation: No review of bid submissions for Commonwealth acreage is carried out by the state agencies. Submissions are immediately couriered to Canberra for review. Within 5 days companies advised verbally on the status of submission – either “complications”, “competition” or “straight forward”.

Fourteen days after submission, companies with straightforward bids are officially advised and the response process can be initiated. Staff involved in the bid assessments should not be also considering the normal daily operations of the industry that need close attention during this time. Industry would handle these short but intense periods with consultants and government agencies should be encouraged to do the same.

3. Consistency in the Administration of Guidelines

The work program system for the awarding and administration of exploration acreage in Australia with primary and secondary terms is considered appropriate for the level of petroleum prospectivity. However the administration of the guidelines concerning variations to the work programs in either the secondary term or the renewal period is currently being administered inconsistently. That is to say that what is approved by one state agency is not approved by another or within a state agency what is permitted to one joint venture is not permitted to another.

Companies adopt a rigorous approach to assessing exploration acreage and work programs submitted are a point in time of the understanding of the potential of an area. Following the execution of the primary term (3 years) commitment, new information is gathered that will no doubt change the prospective perception of the acreage. A detailed technical presentation should all be that is required to be provided with a requested variation or renewal program. If government officials believe that a revised work program is not warranted then factual evidence should be provided to support this assertion.

Recommendation: Guidelines are provided to support the administration of the Petroleum Submerged Lands Act. These guidelines are extremely helpful to non Australian Exploration companies to understand the obligations and flexibility. Should a sound technical presentation be submitted to the authorities that cannot be factually dismissed by an alternative view then approval to vary the work program outside the primary term should be given. Inconsistencies in administration will cause International frustration and the desire to spend exploration dollars elsewhere.

Yours Sincerely,

Ernie Delfos
Exploration Manager