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**HOUSE OF  
REPRESENTATIVES**

STANDING COMMITTEE ON INDUSTRY AND RESOURCES

**Reference: Resources exploration impediments**

MONDAY, 21 OCTOBER 2002

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**HOUSE OF REPRESENTATIVES  
STANDING COMMITTEE ON INDUSTRY AND RESOURCES**

**Monday, 21 October 2002**

**Members:** Mr Prosser (*Chair*), Mr Byrne (*Deputy Chair*), Mr Adams, Mr Fitzgibbon, Mr Gibbons, Mr Haase, Mr Hatton, Mr Randall, Mr Cameron Thompson, Mr Ticehurst, Mr Tollner and Dr Washer

**Members in attendance:** Mr Adams, Mr Fitzgibbon, Mr Haase, Mr Prosser, Mr Ticehurst, Mr Tollner and Dr Washer

**Terms of reference for the inquiry:**

To inquire into and report on:

Any impediments to increasing investment in mineral and petroleum exploration in Australia, including:

- An assessment of Australia's resource endowment and the rates at which it is being drawn down;
- The structure of the industry and role of small companies in resource exploration in Australia;
- Impediments to accessing capital, particularly by small companies;
- Access to land including Native Title and Cultural Heritage issues;
- Environmental and other approval processes, including across jurisdictions;
- Public provision of geo-scientific data;
- Relationships with indigenous communities; and
- Contribution to regional development.

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**Committee met at 10.33 a.m.**

**HAYDOCK, Mr Anthony Raymund, Director, Energy Markets and Resource Access, Australian Petroleum Production and Exploration Association**

**JONES, Mr Barry Richard, Executive Director, Australian Petroleum Production and Exploration Association**

**MULLEN, Mr Noel Christopher, Director, Commercial, Australian Petroleum Production and Exploration Association**

**CHAIR**—I declare open this second public hearing of the House of Representatives Standing Committee on Industry and Resources inquiry into investment in exploration in Australia. I welcome everyone here today. Would you like to make a short statement before we proceed to questions?

**Mr Jones**—Yes, if I may, Chair. I would like to stress that there are some fundamental differences between the petroleum industry and the mining industry. Firstly, a petroleum licence is structured in a conjunctive way. The right to explore right across Australia carries with it the right to produce, and that creates some problems when you get around to dealing with native title. It also means that impediments at the development stage of a petroleum project can be as much of an impediment to exploration as ones at the exploration stage itself.

The other fundamental difference between mining and petroleum is that most petroleum is found offshore and most of it is found in Commonwealth waters. So the leverage of the Commonwealth government in policy making—the importance of this committee from a policy recommendation point of view—is significantly different from that of the mining industry, where much of the policy control rests with state levels of government. That is not to say that we do not have a few problems with state governments. We have been through a protracted, seven-year negotiating period, for example, with the Queensland government to get us a new petroleum act and a new set of coal seam methane regulations. We still do not have any clarity in Western Australia about access arrangements offshore or access to conservation reserves or state parks. In New South Wales at present we have some problems about the whole licensing arrangement for the industry. Nevertheless, much of the policy influence on the petroleum industry rests with the Commonwealth government.

I also want to emphasise that from APPEA's point of view we do not see this inquiry as a stand-alone exercise. To us, it is an integral part of energy policy. Early in our submission, we have a graph which shows the Australian government's forecast of where oil production will go in Australia over the next 10 to 15 years. There is a very dramatic drop-off in that production curve and there are three probability curves at the end of it. We see this inquiry as being about doing two things: firstly, ensuring that Australia ends up on the top one of those curves; secondly, hopefully getting above that curve.

The third point is that you need to take a long-term view in your deliberations. Right now, crude oil at \$30 per barrel, train four of the North West Shelf gas project, the Guangdong China project and the potential LNG developments in Darwin would make everyone think that the oil and gas industry is in a bonanza time. I would be less than frank in saying that it is not bad. But there are two observations I think you need to bear in mind. Firstly, the trend line of the crude

oil price is what matters, not the absolute price at any particular point in time. The crude oil price is exceedingly volatile. The last time I sat in front of a committee in this building, which was only 2½ years ago, the price of crude oil was down in the range \$US10 to \$US15 a barrel. It is the issue of volatility in the crude oil price that is the determinant of investment, not the absolute level.

In relation to gas, we have had some successes in the export market but it is an exceedingly competitive export market. There are larger and cheaper gas resources out there. There are gas resources out there that are closer to the markets we want to be in. It is an imperative for success in the long-term negotiations for export gas that we have the most efficient approvals process and taxation system we can possibly have. Separate from that is the whole issue of the eastern coast gas market and the competition between coal, renewables and gas for the supply of electricity and direct heat in that part of the market.

APPEA suggests that in relation to petroleum exploration, the committee needs to have two policy objectives. It is essential for the Australian economy and supply reliability that Australia maximises its production of liquids—of oil and condensate. It is also essential for greenhouse reasons and for energy market competition reasons that we maximise the penetration of gas into the domestic market. We argue that you need to take a longer term strategic view of the world rather than a shorter term, budgetary driven one.

Our submission basically says that you need to look at three components in relation to petroleum: assessing Australia's resource endowment, the efficiency of the approvals process and the effectiveness and international competitiveness of the taxation system. I do not intend to go through all the details in the submission, but I want to make a couple of supplementary points in each of those areas.

Firstly, in relation to assessing Australia's resource endowment offshore, APPEA does not believe that government agencies or the industry deliberately set out to act in an environmentally irresponsible manner. We have no interest whatsoever—I repeat: no interest whatsoever—in exploring for oil or gas in the Great Barrier Reef Marine Park. We have no interest whatsoever in doing damage to whales, to dolphins, to turtles, to dugongs, to the reef or to anything else. We believe that the Australian industry's environmental track record speaks for itself. It is a concern to us that there is a knee-jerk reaction going on, particularly with regard to Australia's EEZ in the north east of the continent, which is likely to see Geoscience Australia banned from doing any resource assessment work in almost one-quarter of Australia's continental shelf. If we do that, we are restricting the exploration options. We think it is absolutely important that some clear guidance be given to Geoscience Australia and to the industry about where we can go and where we cannot go in that particular part of the country.

Secondly, in relation to approvals processes, I want to make it emphatically clear that APPEA and its members do not challenge the right of Indigenous Australians to establish native title. However, we do believe that with the way the system has been operating for the last couple of years, the process of management of negotiations under native title has got a little bit out of hand. In at least a couple of jurisdictions in this country the stock standard rule now is that industry is expected to pay for Indigenous Australians' attendance costs. If government wishes to have industry assess Australia's resource endowment, it is then government issuing of licences which in fact triggers the native title process. The High Court has now made it very clear that subsurface minerals and petroleum are not a part of native title. We think it is time

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that governments made it very clear that de facto royalties, production payments or anything of that kind should not be a part of native title negotiation, be it an Indigenous land use agreement, a voluntary negotiation or a negotiation under the right to negotiate processes of the act.

Lastly, let me briefly refer to taxation issues. I do need to apologise to the committee because it will be quite clear to you that some of the discussion of taxation in our submission is a little non-specific. I am afraid that while I am more than prepared to talk about the broad thrusts and the imperatives we think are there, there are four or five critical figures that would add a great deal of specificity to our submission that I am not able to give the committee today. That is because of the way APPEA operates—our board is meeting in Perth on Wednesday night and Thursday and they will thrash out those key figures at that stage. I hope that by the end of this week I will be able to write to the chairman and fill in those missing gaps. I do apologise to the committee for not being able to be as precise as I would have liked to have been, but this is not a simple issue for the industry and it is a matter of some debate amongst the members. We will come up with a uniform position for you. Thank you, Chair.

**CHAIR**—Thank you for that. I note that you touched on taxation matters, but in your submission you made no reference to flowthrough shares. Would you care to comment on that element?

**Mr Jones**—We would make the point to you that we think there are four areas where the taxation system needs to be changed. There is no doubt that there is a taxation black hole for small companies and medium sized companies who do not have an income stream, who are engaging in exploration activity and who have no way of writing that exploration cost off against an income stream. This is what we think should happen if small investors and small companies are going to have a life in our industry—and we think it is vital that they do, because, after all, it is not that long ago that Woodside was a little company based in Victoria pottering around in Bass Strait. If we are not going to have small companies that can grow, then we ignore this problem; if we do want to have growth in the industry, then we need to deal with that. One of the issues that we will be writing to you about at the end of the week is our preferred view on that subject, but it is, in our view, an issue that you must tackle

**Mr HAASE**—Thanks for being here today, guys. It is great that we have this opportunity to interact face to face. In the submission you have made you talk about the costs associated with native title and the fact that they should be deductible. You also mention that governments ought to be revamping the process in order to make outcomes more definite and predictable. I would like you to elaborate on that and give me some indication as to which way you would want government to go in making things more predictable.

**Mr Jones**—There are a number of things that we think can be done. The first one relates to the fact that acreage for petroleum is dealt with in a different way from acreage for mining. Effectively, in all jurisdictions governments decide which acreage will be put out—and they actually put acreage out for bidding—whereas in mining you normally go along to the mining board and say, ‘I’m interested in that block. Can you give me a licence?’ In the case of petroleum, government says, ‘These are the blocks. Have you got an interest in them?’ We think it is imperative that both the Commonwealth and the states, when they do that, disclose all relevant information with regard to native title. We are now the best part of 10 years down the way since the Mabo decision. It is our view that governments should be able to say, ‘Look, there are two native title claimants over this particular block. The contact points for those native title

claimants are X. The areas they are claiming and the elements of native title they have identified in their claims are X. There is a native title holder here, and that native title holder has rights.' In short, we are saying there has to be full disclosure up front. This is particularly a problem for onshore, because the offshore regime is different. That is the first thing: we think that it is incumbent on governments to have full disclosure in the acreage release process, and they do not at present.

Secondly, we think that, when government goes through the process of assessing bids, it should be advising the native title claimants and the native title holders that it is at that stage. It should be doing something about explaining to them what oil and gas exploration is about and what the likely activities are about. You cannot just make an assumption that everyone in Australia understands how we explore et cetera. We are quite prepared to assist government in that; we have got some things that we think would be useful if government set out to actually explain in advance what it is we are on about.

The third thing—and it is the matter I alluded to in my opening statement—is that, since we wrote that submission, the High Court has made it clear that subsurface resources are not part of native title. We therefore think that the act should be enforced the way it is. The whole debate that we have gone through in a number of parts of the country is about, 'Oh, well, if you find oil or gas we want part of the income.' If government is of the view that that is the way we should run the petroleum industry, then onshore royalties should be reduced by that social payment. We pay a royalty for the right to explore. If government believes that part of that royalty should be given to Aborigines, then you do not do it on a cost plus basis; you do it on a royalty minus basis. Those three areas are the three that we think should be addressed.

**Mr TOLLNER**—On the same subject, you talked about meeting costs in relation to native title. I am interested, firstly, in whether you have had any experience with the Northern Territory Aboriginal land rights act. Secondly, a week and a half ago we had a meeting in Darwin and the Northern Land Council put in a submission to this committee in which they said that costs are minimal for explorers to get through the native title process and the Aboriginal land rights process. Would you agree with that?

**Mr Jones**—Answering your first question, in the dim, distant past, when the Amadeus Basin was being developed for the Palm Valley oil and gas, there were some interesting negotiations between Magellan and some of the other companies and the Central Land Council. I do not think those negotiations, which were way before my time, were exactly harmonious, but over the years I think a very constructive working relationship has developed between the Amadeus Basin producers and the Central Land Council, and I think that arrangement is working quite effectively. That is about the only thing we have got going onshore in the Northern Territory.

With regard to the cost, you have to understand that we are talking about small companies which are going to drill wells onshore. They are probably going to drill a maximum of four or five wells in an exploration licence. It is going to cost them probably a minimum of \$100,000 a well. In South Australia, when we were negotiating the first voluntary agreement in the Cooper Basin, the South Australian government met the meeting costs, so it was not an issue. In Queensland at present, the Queensland government are saying, 'Meet the meeting costs.' The companies believe that those costs could be as high as 10 per cent of the cost of drilling a well. If that is the case, it is money straight out of the exploration budget and it is a reduction in the amount of money that is available exploration. It is a judgment call as to whether five, 10, 15 or

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20 per cent is significant. My point is that every dollar that comes out of the exploration budget is a dollar less that is going to be spent on drilling and finding oil and gas.

**Mr FITZGIBBON**—I am particularly interested in the controversy surrounding the Sunrise gas project in the Timor Sea and the efforts to bring that gas onshore rather than exploit it from a floating facility. Do you think there is greater role for government to play in foreseeing these emerging issues and possibly even a greater role for government in regulating the timing of the exploitation of these resources?

**Mr Jones**—No, on both grounds. You are dealing with a very difficult and diverse market situation. The mantra is: bring more gas into south-east Australia and the price of gas will drop dramatically. The implication is we will then have large gas-fired baseload electricity stations around the country and the greenhouse problem will be solved and life will be wonderful. I am sorry if I sound slightly cynical about that process. In relation to the eastern seaboard gas market, we have stranded gas resources in the Gippsland Basin. Exxon has just spent another \$300 million looking for gas, and I presume it did not do that without some expectation of finding more. We have one to two trillion cubic feet in the Otway Basin, which is yet to be developed and brought to shore.

There is a substantial coal seam methane resource in New South Wales, outside Sydney and around Narrabri, and then in Queensland in the Bowen and Surat basins. The estimates of that resource vary. People talk about 12 to 15 trillion cubic feet of gas. Even if one or two trillion cubic feet of that was developed it would be a substantial gas resource. Then you have potential gas out of PNG. And, assuming for the moment that the Bayu-Undan gas resource is dedicated to an LNG plant in Darwin, you have at least two, and possibly three, other gas sources in the Timor Sea that either can go with the export market or come to Australia.

APPEA is very firmly of the view that government trying to pick winners in that sort of complex market situation is a recipe for disaster. The integrated energy market in south-east Australia should be allowed to play out. If there is a gas market, then there is a straight commercial negotiation between at least six suppliers and the major customers. Some of those major customers, such as Gove, for example, do not have all the six options. But basically, on the eastern seaboard from Gladstone down, each place has got three or four options. It is a competitive market; let the market reign.

**Mr FITZGIBBON**—You talk about picking winners, but it is interesting that DFAT is now itself, in a sense, picking winners by declaring that unitisation and the ratification of the treaty with East Timor must come together, because our interest, in terms of the Greater Sunrise project, is much greater than our interest in the Bayu-Undan field. Did APPEA make a submission to the Joint Committee on Treaties with respect to the East Timor treaty?

**Mr Jones**—No, because that treaty has very significant commercial ramifications for two groups of our members, and there are times when industry associations just cannot walk down the middle road. Between those two projects and the one that is there already, there are very significant commercial interests. If we had started saying, 'We favour this part or that part,' then we would potentially have started making choices between members.

**Mr FITZGIBBON**—So therefore APPEA does not have a view about whether it is possible to ratify the treaty prior to the completion of the unitisation agreement?

**Mr Jones**—My understanding is that the government has emphatically said a number of times that the treaty will be ratified before 31 December this year. We all know that that means before then, because parliament is not going to sit until New Year's Eve, I presume.

**Mr TICEHURST**—Don't tempt them!

**Mr Jones**—There have been days when things like that have almost happened—Christmas Eve, certainly. But we expect the government to keep to the commitment that it is made that the treaty will be ratified before the end of the year.

**Mr TICEHURST**—APPEA suggests a single agency could better coordinate the approvals process. Do you have any particular agency in mind or are you suggesting some new agency may be formed?

**Mr Jones**—If you read carefully, what we said is that that is our preferred position—that you have what is euphemistically called in the industry a 'one-stop shop' approach to decision making. You go to a central agency and everything flows from there. The reality is that, given the Commonwealth-state nature of the industry and given the nature of legislation in the Commonwealth parliament, it is not possible to do that.

Let me talk about Commonwealth jurisdiction. We effectively have three pieces of legislation that matter to us. Firstly, there is the Petroleum (Submerged Lands) Act, which covers licensing, approvals and conditions both for exploration and operations. Separate to that, located in a different department and with a different minister, is the Environment Protection and Biodiversity Conservation Act. One of the six triggers under that act is the marine environment. Ninety per cent of Australia's petroleum production and exploration takes place in the marine environment. That therefore means that Environment Australia is a different decision making point to the Department of Industry, Tourism and Resources, which has got the Petroleum (Submerged Lands) Act. Separate to that again is the Native Title Act, which rests in another government agency.

Our view is that the three agencies need to work in unison. As I said in response to an earlier question, we think that all information should be put out in the bidding package up front. All the environmental information about whale migratory routes, marine parks, marine conservation areas, sensitive marine areas, native title and the geological potential of a region should be packaged together so that industry at least has the capacity to make an informed judgment when it is bidding.

We also think that the agencies need to work in harmony and to run their approvals processes in parallel not in sequence. Native title issues and environmental issues should be considered in parallel. You should not have to go through a year to a year and half to get your licence, and then have to go through another two years of native title negotiation, and then have to go through another year of environmental negotiations. We should do as much as possible to run these things in parallel so we do not get these long dragged-out situations. This is critical to the investor. If you go to the investor and say, 'Look, I want \$200,000, \$500,000 or \$1 million to bid on this particular block for petroleum,' then the investor is going to say, 'When am I going to get a return?' You do not want to be in a situation of saying, 'It is going to take at least 12 months to get the licence, and then that might trigger the Native Title Act, so it might be another two years after that, and then I will have to get my environmental approvals.' Any investor is

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going to say, 'Sorry, what you are really telling me is that it will be three to five years before I get any sort of cash flow out of this. Thanks very much, but I'll go somewhere else.' It is just a commercial reality. The shorter you make that process, the more consistency you have in it, the more transparency you have in it, the faster you will get to the stage where action starts to happen. That makes it easier to get investment funds into the industry.

**Mr TICEHURST**—Fair enough. You also say that the health of the entire industry is reflected in the strength and viability of the junior exploration sector of the industry. Why is that the case?

**Mr Jones**—The juniors are the bellwether. If you are an un-named large corporation which has a capital budget which is probably sufficient to buy one or two of the Australian states without any difficulty, then success or failure happening today or tomorrow is not quite as important to you. You just juggle your budget globally; you juggle your portfolio globally. They are people who look for low-risk investments, they are driven by investment funds, by shareholders who want rules to be followed. They juggle their investment in their international portfolio and large sums of money can move from one place to another on the basis of perception.

If you want risks taken, if you want innovation, if you want people to go into new frontier areas, if you want them to go back and rework the data, then you are looking for people who are prepared to take a higher risk, and they are normally the small and medium sized companies. The classic example is the small companies which have moved into the Cooper Basin over the last 12 to 18 months and the number of small but very significant oil finds they have made. There is a whole new stream of exploration going on in the Perth Basin in Western Australia where very difficult geological circumstances are being successfully addressed. That is small companies looking at things and taking a risk. Even some of the in-fill exploration going on in the Monte Bello Islands region is being done by medium sized Australian companies who are saying, 'Let's rework; let's go in and look.' Most of the coal seam methane development in Queensland is being done by those sorts of companies as well. They are the ones who will take a risk, who will innovate. You take risk and you innovate and the more of that there is, the more lively the industry becomes, the more you find, and the healthier the industry becomes.

**Mr TICEHURST**—How do you think the government can improve the viability for these organisations?

**Mr Jones**—There are, to our way of thinking, three areas. Firstly, Geoscience Australia, in the offshore, and the state geological survey organisations have to be active agencies which are out there doing precompetitive research work. There is a view that either you run Geoscience Australia and the state agencies on a user-pays basis or you just get rid of them and industry will go and look. That is true, but the people who will go and look will be the big companies. They are the only ones that can afford to run a \$300 million speculative survey to see what might be there. Small companies cannot do that. So if you do not have an active, viable and vibrant Geoscience Australia and state geological surveys, you are shifting the game away from small companies straightaway. Secondly, the approvals process has to be efficient, quick, tidy and transparent—all the things I have just said—because that gives the minimum drain on the limited exploration budget. Thirdly, you need a taxation system—and this comes back to the flowthrough shares—which enables the investor to write off the cost of exploration as soon as possible. So we think all three areas need to be addressed.

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If you are a larger company and you are likely to get into a big production play offshore, there are certain things to do with petroleum resource rent tax which also need to be addressed. If governments take the view that they do not want Geoscience Australia offshore or they do not want it doing precompetitive work—they only want it doing ocean mapping or something like that—you are going to have to change the taxation system as well for speculative surveys and for frontier areas offshore to encourage companies to go. You are going to have to make speculative surveys in Australia attractive compared with speculative surveys elsewhere in the world, and that will apply to the big as well as the small companies. So there are three things: viable agencies doing the precompetitive work, efficient approvals processes and a taxation system which encourages the flow of speculative capital.

**Mr ADAMS**—On your assertions in relation to native title, I take it that the industry is being asked to pay on gaining the exploration licence. Is that the point you are making? You said it would be 10 per cent, that if it was \$100,000 to drill a hole then it would be \$110,000. I am just trying to get that point.

**Mr Jones**—In one of the jurisdictions at present, government is taking the view that, if industry wishes to negotiate with regard to a licence, industry will pay the meeting costs of the Indigenous parties who are involved in that negotiation.

**Mr ADAMS**—The meeting costs?

**Mr Jones**—Their travel to and from the meeting, their attendance fees, their food et cetera. South Australia did not take that view with regard to the Cooper Basin negotiations—South Australia met a substantial part of those costs itself. But in another jurisdiction that is not the case.

**Mr ADAMS**—I am just trying to get the point. The evidence you gave was that there was some sort of cost involved in getting the exploration licence. Does that apply? Is that a part of the negotiations? Is it about the end agreement? You said it was \$100,000 to drill a hole and that these costs were an extra \$10,000, so it was taking money out of the exploration budget of the country as such.

**Mr Jones**—Let me put it to you this way: to get a licence and operate at present there is a licence fee which you pay to the government. That is stock standard. If there is potentially native title you will have to go through a negotiation and there are three sets of costs that you may face. One is a legal cost because these negotiations tend to be lawyer dominated. The second set of costs is actually running the negotiations and the meetings, and in at least one jurisdiction that government is saying that industry pays those. Thirdly, the concept of compensation under native title says that you should pay for disturbance of the native title, and that is fair and reasonable. That is what the act says. In recent times the Indigenous proponents have also been saying, 'We want a de facto royalty. We want a production payment if you are successful,' which then comes off the top.

**Mr ADAMS**—The point I have been trying to make is that you gave evidence that there was an extra cost in exploration that was coming off the amount of money going to exploration in Australia and going to the cost of native title and getting the licence up. In what you have said you have only accepted that there are costs involved in the negotiations, but they are now being asked to pay a royalty—is that what you are saying?

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**Mr Jones**—No. Every one of the proponents bidding for a licence has got a fixed amount of money. Out of that fixed amount of money, of which preferably every cent is spent on exploration, there are a string of things that they may have to pay. Each one of those components, be it the lawyers, the sitting fees et cetera, reduces the amount. The last payment, the potential production payment, is off the production stream once it has been established.

**Mr ADAMS**—How does that apply in overseas jurisdictions? Do petroleum companies pay a production cost in their native title regimes in Canada or the US?

**Mr Jones**—That I cannot tell you in detail.

**Mr ADAMS**—Could you look it up and let us know?

**Mr Jones**—Yes. Let me again make the point. Even the meeting costs are being dealt with in a non-consistent manner within the onshore jurisdictions.

**Mr ADAMS**—I take your point there and it is a very good point. I think it is important to put it on record. I am just interested in whether or not Australia is operating uncompetitively with the rest of the world. I understand that in production costs there would be agreements made and met in Canada and the US if it was on indigenous land. If you could let us have that it would be very good. How much Indigenous employment would there be in the petroleum industry?

**Mr Jones**—I cannot answer that question.

**Mr ADAMS**—Could you let the committee know?

**Mr Jones**—We can try. Let me make the point that I have 50 member companies who are engaged in exploration and production. They range from the Exxons and Shells of this world at one end down to very small companies at the other. Getting accurate information, particularly at the bottom end of the scale, is often difficult.

**Mr ADAMS**—All industry gained in the Ralph review of taxation. There were some specific changes in the mining area and the petroleum area. You are seeking some taxation opportunities in your submission to this committee. What were the changes gained in the Ralph review for the petroleum industry?

**Mr Jones**—Let me contest the opening statement. The petroleum industry does not believe that it won or was a net beneficiary out of the Ralph review process. We made the point very early in the debate that there was a fundamental difference between industries which were basically cash driven and industries which had large capital expenditures which had to be made up front to get a project off the ground.

The debates we had with the government, and to some extent with the opposition, over the last 12 months about effective life of assets were about how to in fact return the system to something which was approximately neutral, pre and post Ralph. There were a number of components of Ralph and, in our view, when you added them all together you effectively ended up with a worse system rather than a better one. As a result of the decisions which parliament passed at the end of the last session, we think we are at least back to a neutral situation—pre and post Ralph.

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Certainly we would contest that we were winners out of Ralph. That is largely to do with the capital intensity of the industry. Yes, there were some companies in the industry which obviously did very well out of the drop in company tax rates; that is accepted. But whether that was a win overall for the industry is a much more disputable point. The tax burden of the petroleum industry is not just a matter of company tax. Offshore we have company tax and, in some cases, production excise. Most of the area is subject to the petroleum resource rent tax. Onshore we have company tax and state royalties. Most of the industry is offshore; most of the cost is offshore.

One of the things we have flagged in our submission is that we believe parts of the petroleum resource rent tax are operating in a perverse way at the development stage. As such, when a company is determining whether it will invest in exploration in Australia we find that they may not even bother to come here because the production tax system does not work. For some time we have been saying to governments in Canberra that there are parts of the petroleum resource rent tax system which need to be reviewed because they are operating in a perverse way. The tax was supposed to be, in economic terms, a super profits tax, a tax on economic rent. If the tax starts clicking in before you even start earning a reasonable rate of return then you have a perverse situation. We believe that, at least for some gas projects, that is the way the system is working. Two of the proposals we will be flagging to government and bringing to the committee's attention—we hope, at the end of the week—will be in relation to how you change the resource rent tax system to improve it. At the end of the day, any company working offshore of this country has to look at both the company tax system and the production tax system and make their judgment on an overall basis.

**Mr ADAMS**—You are going to put a submission to us on that once you get your act together?

**Mr Jones**—We will have a letter to you within a week. The gentleman on my left is squirming at that statement!

**Mr ADAMS**—Nothing is easy, Mr Jones. There is a proposition to exclude 30 per cent of Australia from any opportunity for Geoscience Australia to look at exploration. Is that your comment?

**Mr Jones**—My comment is that if you draw a line straight north from the tip of Cape York and a one straight out from the Tweed River, there is a large arc of the Coral Sea which goes almost to Noumea in New Caledonia, and—on the basis of the reactions we have had in the public domain over the last two years about whether Geoscience Australia can even do precompetitive work there or whether they can even do ocean floor mapping for ocean policy reasons—we think there is a real threat that, on grounds which are not good scientific grounds, we will be told not to go anywhere near that area. We think that is to the detriment of Australia. That is on the basis that I very emphatically and clearly said we have no interest whatsoever in the Great Barrier Reef Marine Park.

**Mr ADAMS**—I appreciate what you are saying. But I am concerned about that evidence because it seems there is a predisposed position by some groups and they have a campaign running to stop exploration in that arc you were talking of. That needs to be discussed and made public. How does precompetitive work operate in other parts of the world—say, Canada or the United States?

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**Mr Jones**—I would have to come back to you on that, Mr Adams.

**Mr ADAMS**—You are not a very international traveller, Mr Jones?

**Mr Jones**—It is not that I am not a very international person; it is that the systems are complicated, they are variable and they are different to Australia's. For example, the most prospective part of offshore United States is the Gulf of Mexico. The gulf has been worked over and worked over for the best part of 70 years. Regarding offshore Canada, to my knowledge there is only one place at present and that is off Newfoundland around Hibernia. In the North Sea, the British Geological Survey and the Germans, Dutch and Norwegians operated in much the same way as Geoscience Australia does: they went out, they did precompetitive work and they put acreage out for bidding. That is how we got the North Sea oil and gas fields. So it is a diverse picture out there; it is not simple answer.

**Mr ADAMS**—Sure, but we got some of the way. Is Geoscience Australia operating well with their resources?

**Mr Jones**—They are highly professional and well regarded internationally. The work they have done on ocean mapping for the draft south-east Australian regional marine plan is groundbreaking—it is brilliant. That sort of work has a double benefit, because not only do we get a picture of what the ocean floor looks like but our industry, the fishing industry and the shipping industry and scientists in general have all got a whole new pool of information that they can draw on. We would want them to continue doing that sort of work. Their ocean mapping work in defining the boundaries of Australia's EEZ was first rate.

**Mr ADAMS**—Thank you.

**Mr TOLLNER**—In answer to a question earlier on from Mr Fitzgibbon in regard to Sunrise gas and other things you said that you do not see government's role as one of being out there picking winners. The North West Shelf appears to me to be a celebrated resource in Australia, particularly in light of the \$25 billion deal that they have just done with China. I am curious as to what your opinion is about that, as that resource would not have been exploited without the intervention of the Western Australian and Commonwealth governments.

**Mr Jones**—There is a view that, if the first Court government had not underwritten a domestic gas contract, the North West Shelf project would not have happened. We are talking about a gas market 20 years ago where offshore LNG development and exporting large quantities of LNG into the Asian market were at an infant stage—no-one had done it. We are now in a market which is much more sophisticated, where there is experience and track records, where there are a number of these projects around and where there are a number of customers around in the international market. At the end of the day you are down to: 'Do I have gas, do I have gas at the right price and can I deliver it reliably?' That is a different situation to what we had when we started the North West Shelf 20 years ago.

**Mr TOLLNER**—I take your point there. What is the difference between that situation and what is currently occurring in the Northern Territory where the Sunrise partners are saying that they cannot find a domestic market for their particular gas and that the customers are not prepared to sign on? Whilst the potential customers are saying that they are not prepared to move to the Northern Territory until there is some certainty in energy markets, it seems to me to

be a chicken and egg situation: one is saying there is no supply without the market and the other one is saying that there is no market without supply. Bearing in mind that the Northern Territory is seen by many as being resourced substantially by the Commonwealth—and a lot of people would suggest that it is in the nation's interest that the Northern Territory becomes an economically sustainable place, with the railway line making it a transport hub, the gateway to Asia, and those sorts of things—it seems to me that there is an incredible focus by the Commonwealth on the Northern Territory. What is the problem with picking a winner and saying that some of this gas should be used for potential industry in the Territory?

**Mr Jones**—I have no problem with maximising the use of gas in this country—I am all in favour of it. If I can come up with an economic way of wiping out the Latrobe Valley coalfields and the Hunter Valley coalfields, getting Queensland off black coal-fired electricity generation and shutting down Collie in Western Australia—and doing that in a way which maintains the competitive price of energy in this country and Australia's international position—I would be all in favour of it. But the question I was asked was about sequencing and picking between competing projects. It is not that we have a deficiency in gas supply. The fact is that we have potentially eight supply sources for the eastern Australian gas market. There is a competitive game going on—who is prepared to pay what price to get the market?

**Mr TOLLNER**—But I do not hear any screams by people wanting to pipe gas from the Otway to Darwin, so in that regard it is all a bit backwards. I am not talking about shutting down industry; I am talking about creating industry.

**Mr Jones**—In Darwin we have four gas fields: Bonaparte Gulf, Bayu-Undan, Greater Sunrise and Evans Shoal—at least four potential points from which gas could come to shore in Darwin. It is a straight competitive game as to who supplies the Darwin market. There is actually a fifth. Theoretically, there is no reason why you cannot connect PNG to Darwin. The pipeline is going to come down the eastern seaboard of the Cape York Peninsula and there is no reason why a pipeline cannot be built, say, to Gove and Nhulunbuy across the Gulf of Carpentaria. So there are potentially five supply sources. It is a competitive market. If someone sells their gas to a customer at the right price, they will develop. But you are talking about large capital costs, billions of dollars, and the price has to give a reasonable rate of return on those costs.

**Mr TOLLNER**—Purchasing gas from PNG would have to be one of the biggest red herrings ever thrown around, wouldn't it, with sovereign risk et cetera for commercial organisations? Is it something that people are seriously considering?

**Mr Jones**—My understanding is that the proponents of that project have spent a lot of time and effort in promoting it and several major players in the east coast energy market have signed preliminary letters of intent. Presumably, it is their commercial judgment that they think it is viable.

**CHAIR**—There is one last short question which requires a short response.

**Mr FITZGIBBON**—I had no intention of talking about the China contract but, given the member for Solomon has raised it, I might touch on it very quickly. Barry, there are interesting questions emerging out of the gas contract to China. Future levels of investment and exploration will be tied to our capacity to expand and establish new markets. There are three issues that I

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find interesting about the North West Shelf gas contract. The first is the price at which we are selling the gas into China, which I understand is substantially lower than our current contracts elsewhere, such as those into Japan. It has been suggested to me that the price that has been established is about 30 per cent lower than our typical current Japanese contracts. The second is the emerging issue of those in these new markets insisting on equity in some of these projects, which has been the case with Australian Leave not granted.—the Chinese have been given equity. The third is the insistence of the Chinese—maybe it was part of negotiated deal—that they be given exclusive shipping rights with respect to the contract. We, as Australians, will be training Chinese crews in highly specialised LNG carrying work. On the price, is this an emerging trend that is of concern? While we all welcome the China contract, do you see the price issue having knock-on effects in the medium to long term and therefore impacting on investment in further exploration?

**Mr Jones**—I cannot comment because I do not know the price.

**Mr FITZGIBBON**—You would accept it is substantially lower than it is typically.

**Mr Jones**—I have heard many rumours but I do not know the price.

**Mr FITZGIBBON**—The minister has acknowledged the price is somewhat lower.

**CHAIR**—‘Competitive’ is the word you are looking for.

**Mr FITZGIBBON**—Is it? I apologise.

**Mr Jones**—A commercial negotiation was held and a commercial decision was arrived at. All the parties are happy with it.

**Mr FITZGIBBON**—I am not sure all parties are happy with it. That is another story.

**Mr TOLLNER**—The Labor Party is not.

**Mr FITZGIBBON**—I think you will find BP has some views as well. I think Mr Jones was about to add to his answer.

**Mr Jones**—No, I was biting my tongue. I am not going to give a cheap answer. I do not know about shipping. On Friday night, the Western Australian government, the Commonwealth government and the Chinese signed a training program arrangement.

**Mr FITZGIBBON**—Is that picking winners?

**Mr Jones**—No, it was a training program. It is to increase the skills.

**CHAIR**—It is of mutual benefit to both parties.

**Mr Jones**—Mr Brown certainly thought it was a good outcome.

**Mr FITZGIBBON**—So did Mr Gallop. They are making a contribution, and I accept that.

**CHAIR**—Thank you for your appearance here today.

[11.34 a.m.]

**COOK, Dr Peter John , Executive Director, Australian Petroleum Cooperative Research Centre**

**CHAIR**—Welcome. I invite you to make a short opening statement before I ask members to proceed to questions.

**Dr Cook**—Thank you. It was suggested to me that after the presentation by Mr Jones you might like a bit of light relief, so I have some presentations that will appear as PowerPoints and I will go through those quickly. Perhaps I should start by saying, in response to one of the questions addressed to Mr Jones, that I was the Director of the British Geological Survey for eight years and I can confirm what he said: the British Geological Survey is a major part of the overall UK strategy to encourage exploration in the North Sea. It is seen as an integral part of what they are about.

*A PowerPoint presentation was then made—*

**Dr Cook**—By way of introduction, the Australian Petroleum Cooperative Research Centre brings together all of the major research organisations concerned with petroleum in Australia. It is a virtual centre with five nodes. It has been established for a number of years and it has a couple of years to go. This is to remind you that Australia is going to continue to be dependent on fossil fuels for the foreseeable future; this just happens to go out to 2014, and you can see that the amount of natural gas and crude oil used is continuing to increase to meet demand.

In terms of international perceptions, it is true to say that Australia is seen as oil poor and gas rich. That drives the agenda of the exploration companies to some extent. But we can change exploration perceptions. They can be enhanced by, for instance, ready availability of high-quality data and a good research and development base, and I would also include appropriate greenhouse strategies. I will briefly touch on each of these comments. Again reflecting on a point that Mr Jones made, we cannot base our approach to exploration in Australia, or anywhere else, on the assumption of a high and ever increasing price for oil. There are overriding economic, strategic and security considerations that may require government action to encourage exploration rather than just leaving it to the marketplace.

The diagram shows what has happened to the price of oil over the last decade or so. As you can see, it has gone from about \$US17 a barrel up to \$US40 a barrel. That is an enormous increase over a decade. Given that it takes probably a decade to bring a major exploration play into a producing field, you are seeing there the enormous amount of uncertainty in terms of projections. In fact, if you look at the trend in the price of oil over the last 100 years, you will see that the price is actually going down, contrary to people's expectations. However, in the last 20 years we have obviously had what is either a major blip or a major step change, depending on what happens in the future with OPEC. But you can see there the overall trend of oil without OPEC influence. Again that produces a significant degree of uncertainty for the exploration companies.

I will briefly talk about access to data. Like APPEA, I believe that a well-supported Geoscience Australia, able to provide ready, low-cost access to data, is a key element in ensuring that Australia is an attractive destination for the international exploration dollar. I would also make the point—and, again, there has been no collusion between me and Mr Jones—that the issue of having a strong junior sector is very important. I believe that the provision of low-cost, high quality data is absolutely critical to supporting that junior sector. In general terms, Australia has a poorly developed junior sector. We need to work harder at that. I would also make the point that the support for petroleum research by CSIRO and the universities can make a valued contribution to encouraging exploration and production. Perhaps there is a role for them in helping to encourage the juniors, too. The juniors cannot afford to do R&D, quite frankly, so maybe there is a role there for CSIRO and the universities as well as for Geoscience Australia.

If we look at what has been happening in R&D in recent years, we see that just about all of the companies are decreasing their overall spending on R&D, relatively speaking. A number of companies are investing in R&D in Australia, and we see this through our CRC. A number of companies—for instance, BP, BHP, Chevron, Texaco, Shell and Woodside—have been major supporters of our research. We also see some good recent initiatives such as the setting up of the Woodside Foundation in Western Australia which has encouraged R&D and the recent moves by Santos to set up a major centre in Adelaide. We endorse those sorts of moves, but we do see that many exploration and production companies are not investing in Australian R&D. I believe that is unfortunate not only for Australia but for the industry. I would make the point that the overall level of petroleum R&D investment in Australia is low. I believe this may inhibit successful exploration and production in some circumstances.

We did a recent review of how much R&D is worth. We got an independent economist to provide us with some numbers on this, and he did quite an in-depth study. He came to the conclusion, amongst a number of other conclusions, that the value of generic global technology advances to the Australian industry over the next decade would be \$9 billion. In other words, bringing in new techniques and applying them to Australian exploration and production is going to produce a significant amount of extra oil, and extra oil is valued at present-day prices at about \$9 billion. That would be a significant extra benefit to Australia. Of that \$9 billion, the value of Australian derived or modified technology—in other words, Australian-specific technology—would be worth about \$3 billion. So that is taking sometimes generic technology and tailoring it for Australian conditions or actually doing a project that is specifically tailored to Australia right from the start—again, a real benefit to exploration and production.

We looked at how much benefit is derived from a thing such as the CRC, which is actually focused on exploration and production. I do not want to take you through all those numbers, but the bottom line is the important one. Total investment is \$31 million and total value is \$308 million. In other words, there is a value of about 10 to one by enhancing exploration and production in Australia. Coming out of that is investment—and, of course, a significant amount of that investment is coming not only from industry but also from the federal government.

One further point I want to touch on is the issue of capture and geological storage of carbon dioxide, putting it back where it came from. You might ask: why is this going to impact upon exploration and production? The reason it is going to impact on exploration and production is that a number of our gas fields are very high in CO<sub>2</sub>. If we are going to exploit them then we are going to have increasing CO<sub>2</sub> emissions from them. This is starting to drive the exploration

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strategy of some companies. They are now starting to say, 'We had better start looking at avoiding high CO<sub>2</sub> fields.' For instance, Evans Shoals has been mentioned. Evans Shoals is a high CO<sub>2</sub> field. In the CRC we have been looking at what we can do about this and where we can put CO<sub>2</sub> into the subsurface. We have looked at a large number of sites around Australia. Again, I do not have the time to go into it, but Australia has a very high potential for putting a lot of its CO<sub>2</sub> into the subsurface both onshore and offshore.

There is one place in the world at the present time where this is being done on a large scale, and that is in the North Sea. This is called Sleipner. They are taking the gas from 2,000 metres or so, separating out the carbon dioxide, sending the gas to market—in this case, the western European market—and then putting the CO<sub>2</sub> into the subsurface. That is the sort of thing we are going to have to start contemplating in Australia. A major impediment to the Australian exploration and production industry would be an arbitrary carbon tax, for example. What we have to do is to work with industry and government to come up with more creative solutions to this particular issue that will enable industry to decrease or at least maintain its current levels of CO<sub>2</sub> emissions while still conferring benefit on the Australian economy.

In conclusion, we have to ensure that we do have opportunities for providing industry with low cost access to high quality data. We have to encourage the development of a strong junior sector. We have to strengthen petroleum R&D, not because it feels good to do more R&D but because it actually benefits the bottom line, and it has the opportunity to benefit the Australian bottom line in particular. We have to support Geoscience Australia. A strong Geoscience Australia is absolutely critical to encouraging exploration and production in Australia, but support for the universities and CSIRO will also be of benefit to exploration and production in Australia. Finally, we have to develop an approach to CO<sub>2</sub> sequestration that will encourage gas exploration and production.

**CHAIR**—Thank you for that. Dr Cook, you say that the absence of a strong junior sector in Australia inhibits petroleum exploration. How can the junior sector be strengthened?

**Dr Cook**—Mr Jones has touched upon financial issues, so I will not try and touch upon that. That is not my field anyway. How can we encourage them? I have mentioned one thing, and that is to ensure they do have easy access, ready access, to data. I think we need to look at the length of time that data remains confidential on occasions. Maybe it would be an encouragement to the junior sector to have the opportunity to rework existing data that perhaps is kept not necessarily under lock and key but under fairly confidential conditions. Obviously, we have to do that carefully but I think that is one of the ways we can do it. The third thing is that we can work through organisations, whether it is Geoscience Australia, CSIRO or CRCs, for that matter, to provide information and expertise to the junior sector that they would not normally have access to. I know people will say things such as, 'Well, we've got 125 per cent tax deductibility. Doesn't that encourage them to get involved in R&D?' The answer is no. If you have no source of income it is of no benefit at all to you. So you have actually got to provide, let us say, CSIRO or whoever with the opportunity to provide at low cost or at no cost expertise that would not normally be available to the junior company. That is certainly one of the things that I think would benefit them.

**Mr HAASE**—We have heard on repeated occasions this morning glowing reports about Geoscience Australia. Frankly, I for one think they do a marvellous job. I am not in the industry, however, and I am not as embodied in the industry as you are. The APCRC is in joint venture

with, amongst other partners, Geoscience Australia. I wonder how we are to take your evidence that they are doing such a marvellous job as an objective statement. Perhaps you would like to give us some background. We do not doubt you, but we would like you to flesh out the fact that you can independently sing the praises of Geoscience Australia.

**Dr Cook**—I believe I can do it impartially to the extent that my salary is not paid by Geoscience Australia, so what I am saying has absolutely no impact on my personal gain. I should mention that I have actually acted as an adviser. As I mentioned, I was Director of the British Geological Survey for eight years. Before that, I was Associate Director of the Bureau of Mineral Resources, which was Geoscience Australia, so I do have some knowledge of that organisation from the inside. Since then, I have been Director of the British Geological Survey, I have served as a consultant and adviser to the Dutch Geological Survey, the Japanese Geological Survey, the Greek Geological Survey, the German Geological Survey, and I think there is one I have forgotten.

I have had an opportunity to view the work of geological surveys around the world and see the key role that they do play in this pretty competitive area. I believe that if, for instance, we were to abolish Geoscience Australia it would have a very major negative impact on not only exploration and production in Australia but also the economy in the longer term. You can say that I am biased; I would say that I am informed, and my information is from a strong base and it would very strongly support what I have expressed. Geoscience Australia warrants support; it is in the best interests of Australia to ensure that ongoing support is there.

**Mr HAASE**—What is the practice in the countries overseas that you mentioned regarding the data the organisations provide to explorers? Is there a user pays situation—fee for service et cetera? How do you envisage Geoscience Australia positioning itself in that regard in the future?

**Dr Cook**—The practice varies. When I was in the UK I looked at this quite carefully. At that stage in Britain they did go through a phase of trying to apply the maximum charge to the user. There was a very significant phase in the early 1990s when charges went up quite a lot. In the United States, conversely, they made data available for the cost of the CD. At one stage I worked out that in the US they were giving data away for \$100 while in Britain they were charging three orders of magnitude more for that data. That does not make the UK right and the US wrong; I am merely showing you the range of strategies that you can develop. Since then the UK has backed off that rather hard sort of stance. The United States has still maintained its position of essentially saying that the companies and the taxpayers have already paid for that information and they should not pay again. That is the position I think we have now moved to in Australia. Geoscience Australia has been essentially told that, and I applaud that development.

We have to recognise that in an area such as the North Sea you had a far more competitive situation with a lot of juniors, a lot of companies and a lot of small leases. It is a rather different situation from encouraging people to embark upon what is essentially greenfields exploration in Australia, whether it is in the Great Australian Bight or in deep water off the North West Shelf. We have to tailor these things for the particular circumstances of a country. All of the countries that I have had dealings with either make the data available at a low cost or no cost. The exception would have been the UK for a number of years but that is less and less the case now.

**Mr FITZGIBBON**—Dr Cook, in your submission you make a number of references to the relationship between R&D investment and outcomes. What about the relationship between government expenditure on R&D and business expenditure on R&D? Do you see a strong relationship and how are we performing in that respect?

**Dr Cook**—Australia overall is performing rather poorly when it comes to business investment in R&D. That is the general thing. When we looked at this, in the E&P industry in Australia it was not a good story, quite frankly. It is difficult to get the numbers now because of the way ABARE makes the information available. We were able to look at this in an authoritative way in about 1998 or 1999—I cannot remember the exact date.

There we saw that industry said that it had spent \$1 billion on innovation and technologies and so on, but it was by and large buying it in and using it in exploration and production. But when we looked at the specific of R&D it came to about \$34 million, which is a ridiculously small amount of money. Since then it has gone up. I have mentioned that there are one or two examples of companies that are now putting significant amounts of money into R&D. We have a number of companies that are working quite closely with those, putting in, again, significant amounts of money. I have mentioned those companies.

On the other hand, I come across companies that will say, ‘We do not need to spend much or any money in Australia on R&D because we are already spending it back at our home headquarters and so on, where we are spending X hundred million dollars a year.’ While some people might take this as an example of why they do not need to spend money here, I would take the converse, and say it is a very good reason why they probably do need to spend some money here. How can we encourage that to happen? It is difficult to know. I think there is a little bit of market failure there at present. I would like to see a slightly more productive sort of approach by government in this area because I believe it is in the best interests of the industry to spend more money in this area, and our numbers say that that is so. I am not talking about doing this for the good of the R&D business in Australia; I am talking about doing it for the good of the E&P business in Australia.

**Mr FITZGIBBON**—My perception, having read your submission—and I suppose I am giving you the opportunity to clarify this—is that you are saying that the government is not giving Geoscience Australia the support it requires to give the country the outcomes we are looking for in the future. I am particularly interested in this concept of making information more freely available to juniors because I am not too sure how that system works. Can you expand on that and talk about how that access could be improved.

**Dr Cook**—At present my understanding is that Geoscience Australia is being supported, but that its work is under review. I hope that review will result in a positive outcome. A negative outcome from that review would be very damaging for that organisation and for E&P in Australia. So it is being reviewed. I do not think we can be complacent about it. We have to make sure the review comes out with some very positive things about Geoscience Australia.

As far as access is concerned, I suspect that the juniors would have the same level of access as any other company. Under the recent change to the rules, regarding access to Geoscience Australia, it is able to provide it at fairly low cost. The problem for a junior, then, is how to utilise that information. There is a large amount of information. How does a junior use that? That is why I am saying perhaps there is some scope for some assistance there, but how would

you do that in terms of an organisation such as Geoscience Australia? Maybe CSIRO is an appropriate organisation to assist the junior companies. Geoscience Australia may have difficulty in that it has to be totally impartial, so it cannot be giving information to juniors that it has obtained through its relationship with majors. So we have to be a little careful with that. It has to maintain its impartiality. Perhaps that is less of an issue for an organisation such as CSIRO or the universities, or a CRC, for that matter. Perhaps they could provide greater assistance to the juniors.

But when an organisation such as CSIRO is being driven very much by the need to bring in external income, there is a bit of a conflict there. How does it provide free or cheap advice to a junior versus its requirement, or the expectation, that it will bring in a lot of external income? So there is a bit of a difficulty there. But certainly I think there is scope for providing the juniors with access to expertise that they would not normally be able to afford. That is my point.

**Mr FITZGIBBON**—Finally, funding of the CRC comes to an end mid-2004.

**Dr Cook**—That is right.

**Mr FITZGIBBON**—Is there some uncertainty about where you go to after that?

**Dr Cook**—We are presently part of a bidding process for a new CRC. We are seeking to morph into what we call the CRC for greenhouse gas technologies. The gas industry, coal industry and power industry are major sponsors of this to start looking very proactively at what opportunities there are for bringing technology to bear on the issue of greenhouse and specifically carbon dioxide. That is what we are morphing into. There will be a need in 2005 for a major new CRC specifically focused on petroleum.

**Mr TICEHURST**—In your submission you say Australia is oil poor, gas rich. Where does that comment come from? You said that is a perception.

**Dr Cook**—It is a perception, but there is a basis for it. We have had a pretty good success rate when it comes to finding large gas fields; we have not had much success when it comes to finding large oilfields since Bass Strait. So it is more than a perception.

**Mr TICEHURST**—Does that mean that the oil is not there or that it is just hard to find?

**Dr Cook**—You can certainly say it is hard to find it.

**Mr FITZGIBBON**—We do not know unless we have found it.

**Dr Cook**—The thing that has kept up our production of liquids is the fact we have a lot of condensate in the gas. So you get gas production, the condensate comes along with that gas production; so you get liquid. If you look at the overall pattern of liquids production in Australia it has stayed up there reasonably well, but what is happening is that Bass Strait is going down and the amount that we are getting from condensate is going up. They have kept in balance. Since Bass Strait we have not found an oilfield that comes remotely close to Bass Strait in terms of size. Bass Strait was a giant. However, are there areas where these might exist? We still have very large areas which are totally unexplored. For instance, there are parts of the Great Australian Bight which are totally unexplored. There are parts of north-eastern Australia—again



I would emphasise, as Mr Jones said, outside the limits of the Barrier Reef—about which we know very little. There could be a giant oilfield within that north-eastern Australian area—again I would emphasise outside the limits of the Great Barrier Reef.

For the present, we know nothing about those areas, therefore they do have potential. We do need to look in those areas. We need to do everything that we can to encourage exploration of those areas. As a result of the United Nations Convention on the Law of the Sea we have acquired double the amount of continental shelf that we had—that is essentially what we have done. We now have the second or third largest continental shelf in the world. Most of that extended continental shelf is unknown. Geoscience Australia have been able to map the continental shelf in a superficial way. In other words, they are looking at the bathymetry and doing some work on seismics and so on but they have not done exploration or even precompetitive work in those areas. You are asking about support for Geoscience Australia. If Geoscience Australia is really going to play the role it could do in those new areas then it will need to be significantly resourced, and I would hope that that might happen in the fullness of time, because that is the only way that we are going to start to assess the potential of those areas south of Tasmania, south of the conventional area we regard as the Great Australian Bight and all those sorts of areas.

**Mr TICEHURST**—In your submission you also mention UNCLOS; what does that stand for?

**Dr Cook**—UNCLOS is the United Nations Convention on the Law of the Sea. That is the convention under which the continental shelf is extended beyond the normal 200-mile limit using a variety of bathymetric and geological criteria. It allows you to extend it well beyond the edge, up to 350 kilometres further out, as long as you have various criteria for doing it. Australia is fortunate that it is able to apply those criteria in a number of areas and we have extended our continental shelf very considerably.

**Mr TOLLNER**—I have a question in regard to carbon sequestration. You mentioned the importance of trying to pump it back under the seabed or landmass. Carbon sequestration had a lot to do with the Kyoto protocol. I am curious as to whether your organisation has a particular position on Kyoto and, if it does, what are the reasons for it.

**Dr Cook**—Let me give you my view on it. There are two aspects to this. One is that geological sequestration—the thing that I was illustrating there with that field in the North Sea—is not at the present time accepted under Kyoto. Kyoto is only concerned with Kyoto forests—in other words, the CO<sub>2</sub> sequestered as carbon in trees. What has happened is that the science has overtaken the negotiations, and we now know a lot more about this area. For example, the sites that we were just looking at could collectively take all of Australia's CO<sub>2</sub> emissions for the next 1,600 years. It has got an enormous technical potential. That is not to say that it is an economic potential—that is a different thing; you have got to show that that is actually economic—but it has an enormous potential. So that is the first thing.

What are my views on Kyoto? It is getting to the stage where it is almost immaterial whether or not we sign up because we will be subject to various pressures to decrease our emissions and so on. The government has said that it will endeavour to meet Kyoto targets whether or not we have signed up—so that is something. But we are also hearing the major companies saying, 'We are taking a global approach to this; we cannot take a different approach to this in Australia

from what we do elsewhere; our practice is to minimise our CO<sub>2</sub> emissions, therefore, we will start looking at things such as geological sequestration.' We have got to be careful, of course, that we do not put ourselves at a disadvantage compared to some of the alternative providers of LNG, for example, which are annex B countries that are not signed up to Kyoto anyway. We have got to endeavour to get this sort of thing accepted as best practice around the world—which it is and which it will be in the fullness of time—so that whether you are getting your LNG from Oman or Indonesia or Australia, you are expected to minimise your CO<sub>2</sub> emissions. If we can do that, we will not be at an exploration and production disadvantage in Australia from this. I think that is what we have got to be careful of.

**Dr WASHER**—Dr Cook, I was interested in your comments on our shale oil resources. We allegedly have a vast resource of shale oil. Could you talk about the quality of that oil and the environmental problems of harvesting it?

**Dr Cook**—I probably can say little more about it than the sort of thing you have read in the paper in that it is claimed that the quality of the oil is good. It is like many other resources: a resource does not become a reserve until you can do it economically. What they have got to prove is that they can actually extract that oil economically. As long as there is any uncertainty about that, you would have to say that it is still a resource and not a reserve. I understand there is a fairly high level of CO<sub>2</sub> emissions from that operation, and I guess that company are probably looking at that issue. They have not spoken with us about geological sequestration as such, but I understand they have taken some steps with trees and so on. Whether that is going to be adequate, I do not know. My understanding is that, yes, there is a fairly high rate of CO<sub>2</sub> emission from the operation; yes, the oil—if we accept what the company says—is high quality. I am afraid I cannot comment on whether or not it is an economic operation. That is something for the company and the market to decide.

**CHAIR**—Dr Cook, thank you for your submission and for appearing before the committee today.

[12.11 p.m.]

**STACEY, Mr Brian, Manager, Land and Development, Aboriginal and Torres Strait Islander Commission**

**van BEURDEN, Mr John Charles, Assistant Secretary, Land, Legal and Economic Development Branch, Office of Aboriginal and Torres Strait Islander Affairs, Department of Immigration and Multicultural and Indigenous Affairs**

**CHAIR**—I welcome the witnesses to the table. Would you like to make a short opening statement before we proceed to questions?

**Mr van Beurden**—Our purpose in putting a submission forward was to indicate that we are doing some work and have some concerns about the mining provisions of the Aboriginal Land Rights (Northern Territory) Act. The government is currently seeking to progress some reforms of that act. This process has been going on since 1997. One of the key issues in the reform process is to improve the operation of the mining provisions of this act. It has been highlighted as an area that needs reform. Very briefly, the act gives Aboriginal landholders the right to consent to mineral exploration on their land, and that consent would allow the initiation of mining on those lands. It also provides financial benefits to Aboriginal people who agree to mineral exploration or mining on their land, in terms of compensation for disturbance of the land and, if there is a mine or if oil or gas is discovered, royalty equivalents flow from that exploitation of the land.

There have been several reviews of the land rights act and the mining provisions over the last few years, and they have all recommended that the mining provisions need to be streamlined. None of the reviews nor the government, as I understand it, have any concern about the consent to mining provisions. That is not at issue. What is at issue are the processes for getting that consent or veto, if that is what Aboriginal people wish, and getting that in a timely manner. The Commonwealth is currently in the process of seeking the views of stakeholders on an options paper recently put out on a range of possible reforms to the act, including the mining provisions. I have copies of that options paper if the committee would like them. I am happy to answer any questions. Mr Stacey is here on the basis that ATSIC administers these provisions on behalf of the minister. If there are questions about the operation of those provisions, I am sure that he will be able to help.

**CHAIR**—My colleague mentioned that we held a hearing in Darwin two weeks ago. The question of warehousing of land came up. How much warehousing of Aboriginal land by exploration companies is occurring?

**Mr van Beurden**—I am not aware of that myself. Perhaps Mr Stacey can answer that.

**Mr Stacey**—I do not think that we have any specific data on that. The mining industry in the Northern Territory argues that warehousing is not a significant problem. On the other hand, the Northern Territory land councils—I assume that they made submissions to the committee when you met with them in Darwin—argue that it is a significant problem. If you appreciate this notion, you will understand why it is difficult to get any specific data. In effect, ‘warehousing’

describes the process where it is alleged that a mining company is deliberately not seeking to bring negotiations with the traditional owners to conclusion because it has some benefit in retaining the title, even if they have not finalised anything. The mining industry generally says that that does not happen.

**CHAIR**—I will pose a question to you on another matter I noted with interest: why hasn't the national interest override or the exploration veto exercised by the Governor-General ever been used?

**Mr Stacey**—In my experience, I do not believe there has ever been an occasion when a mining company, the Northern Territory government or another party has argued that the override, as it is called, should be used. There may have been instances where a company could have argued that they believe the federal government should petition the Governor-General to do so, but it has not occurred. I think it is principally because we have not ever received an argument that it should be.

**Mr TICEHURST**—What is the Commonwealth's strategy for achieving agreement on the reforms? We have agreed that reforms are under way. How effectively is that process working? What has been achieved so far?

**Mr van Beurden**—As I explained previously, the minister has put out an options paper to all stakeholders. He has received comments from a number of stakeholders; he is still awaiting comments from the Northern Territory government and the Northern and Central Land Councils. That is the process. I imagine that, when the minister finally gets all the comments in, he will seek as far as possible to get agreement. He has already indicated that that is his intention and, if there is not entire agreement, I guess he will try and broker some compromises to come up with some reforms to the act.

**Mr TICEHURST**—Is there a timetable for that process?

**Mr van Beurden**—There has not been a specific timetable. We had sought comments by about mid-year, but the Northern Territory government, being a new government and having to determine what its policies are on some of these matters, is still considering its position. At the moment, we are looking to the end of the year for a response from the Northern Territory government and the major land councils.

**Mr TICEHURST**—When does the government expect to introduce legislation amending the land rights act? Is that also programmed for some time this year?

**Mr van Beurden**—At the moment, I think the government would be intending to do that early next year, according to the current timetable—but that is up to ministers, of course.

**Mr TOLLNER**—As the chair mentioned, we had the Northern and Central Land Councils in Darwin fronting this inquiry. They said that there were minimal costs for mining companies to get through the Aboriginal land rights process. I have since had informal discussions with operators who say that, in some cases, a meeting to negotiate agreements and the like can cost the mining or exploration companies up to \$60,000 per meeting. In addition to this, there are the other costs that Mr Jones mentioned earlier on—legal costs and the like. Can you expand on what those costs would be and if, in fact, they could be described as minimal?

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**Mr Stacey**—I think that the costs are going to vary, depending on the size of the exploration licence application, where it is and the number of traditional owners that could be potentially involved. The amount you have mentioned, in the order of \$60,000, sounds to me to be very high for one meeting.

**Mr TOLLNER**—A single meeting.

**Mr Stacey**—That sounds very high to me. I understand it amounts to more in the order of \$25,000. That is what it normally would cost.

**Mr TOLLNER**—Twenty-five thousand dollars would be the standard meeting.

**Mr Stacey**—That is my understanding; the standard is about \$25,000. There could be an instance where it is as high as \$60,000. I do not know of any in recent times, but it is a possibility. But, as I said, the standard is about \$25,000.

**Mr TOLLNER**—Additionally, the Northern Land Council had said that there had been no new mines in the northern part of the Northern Territory since the veto provisions were introduced into the Aboriginal land rights act in 1987. They certainly did not say that in their submission, but it sounded to me like they were very keen to exercise their veto opportunities. I am just wondering if the reforms are looking at watering down those veto provisions at all.

**Mr van Beurden**—No. As I said earlier, there is not any intention to water down the veto provisions. That is a part of the land rights act, as I understand it, that the government made a commitment not to change.

**Mr TOLLNER**—The Northern Territory government have instigated their own review process up there. They have some independent convenors—Dr Bill Gray and Dr Ian Manning—who are convening those reviews. I understand that Dr Bill Gray was one of the architects of the original Aboriginal land rights act, and Dr Manning has some very strong personal views on the nature of Aboriginal land rights. I am curious: does the department perceive that there will be a slanted view emanating from this review, based on the people who are running it?

**Mr van Beurden**—I do not really think that we are in a position to comment on that. That is a matter for the Northern Territory, who have selected those people to undertake that review. We will be interested in what the outcomes are. I do not have any particular views or knowledge that would indicate that it would necessarily be slanted or otherwise.

**CHAIR**—What are the results emerging from the Auditor-General's review of the land council?

**Mr Stacey**—The ANAO has yet to report to parliament on its performance audits it is doing of the four Northern Territory land councils. I might say that it is also conducting a performance audit of the part of ATSIC that I am responsible for administering, which provides the funding to the land councils. They are not expecting to be able to table a final report with the parliament until the end of this year—before Christmas, I understand they are targeting. They have yet to release a draft report. I think you know that normally the process is confidential up until the time they do, so it is probably wise for me not to take that any further.

**CHAIR**—I think we have just about covered it. Thank you very much for your attendance here today. I would like to thank all of the witnesses who have appeared before the committee today.

Resolved (on motion by **Mr Ticehurst**):

That this committee authorises publication, including publication on the parliamentary database, of the proof transcript of the evidence given before it at public hearing this day.

**Committee adjourned at 12.24 p.m.**