

ExxonMobil Australia Pty Ltd

ABN 48 091 561 198
12 Riverside Quay
Southbank, Victoria 3006
GPO Box 400C
Melbourne, Victoria 3001
61 3 9270 3333 Telephone



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Committee Secretary
Standing Committee on Industry and Resources
House of Representatives
Parliament House
CANBERRA ACT 2600
AUSTRALIA

Dear Sir/Madam

Thank you for the opportunity to provide input to the Committee's inquiry into resources exploration impediments. I trust that the issues raised in the attached paper can contribute to the work being undertaken by the Committee.

ExxonMobil would be pleased to meet with the Committee to discuss this matter further if that would be of assistance.

Yours sincerely

Original copy signed

Doug Schwebel
Exploration Director

SUBMISSION TO THE HOUSE OF REPRESENTATIVES

Inquiry into resources exploration impediments

ExxonMobil in Australia

ExxonMobil operates in Australia primarily through wholly owned subsidiaries Esso Australia Resources Pty Ltd and Mobil Exploration and Production Australia Pty Ltd. As well as being involved at all stages of oil and gas exploration, ExxonMobil is an integrated producer of oil and gas and also runs a substantial downstream refining and fuels marketing business under the Mobil brand. Details of ExxonMobil's Australian assets are attached as an appendix to this submission.

ExxonMobil's Australian upstream revenues in 2001 were \$3 billion. The company contributed \$822 million in Petroleum Resources Rent Tax in 2000.

ExxonMobil is continuing an active exploration program in Australia.

ExxonMobil has spent more than \$500 million on exploration in Australia in the past 5 years.

During the last 5 years new net reserves of 7.2 tcf (trillion cubic feet) of gas and 130 mbbbls (million barrels) of liquid were added to existing reserves through our exploration activities.

The company has just completed acquiring the largest 3D seismic survey ever undertaken over the Gippsland Basin in Bass Strait. The 4,100 square km survey covers all northern oil and gas fields in the basin, including many areas that have never been previously analysed with 3D data.

Profile of Gippsland Basin

ExxonMobil operates a number of oil and gas fields in the Gippsland Basin on behalf of the Bass Strait Joint Venture, owned 50% by ExxonMobil and 50% by BHP Billiton.

The joint venture has produced more than 3.5 billion barrels of oil and 5 trillion cubic feet of gas since production commenced in the late 1960s.

The Bass Strait Joint Venture has generated more than \$10 billion in Petroleum Resources Rent Tax in the past decade. Total government take is significantly higher if company and other taxes are included.

While Bass Strait remains a large oil and gas producing region, crude and condensate production has fallen from a peak of around 500,000 barrels a day in the mid 1980's to around 160,000 barrels a day in 2001. Further decline in liquids production is likely in the next few years unless new fields can be identified and developed.

Future development opportunities in Bass Strait are likely to be small (less than 100 million barrels of oil or gas).

Future Oil and Gas Developments in Australia

The Australian Petroleum Producers and Explorers Association (APPEA) submission to this inquiry details the future outlook for oil and gas production and exploration in Australia. In all likelihood future discoveries will be either:

- small oil discoveries that are more expensive to develop than those found to date;
- in new, frontier basins, remote from existing facilities and as a consequence more expensive to develop;
- in deepwater areas, in technology frontiers, and as a result more expensive to develop; or
- gas, with consequent dependence on markets to establish economic viability.

It is in the context of a finite resource base and the high probability that finding and development costs will significantly increase that the Government must consider its policy settings for the industry.

Exploration Risks in Australia

In assessing locations for investing in oil and gas exploration, all major oil and gas companies consider the attractiveness of developing a discovered resource on a full life-cycle basis. That is, in determining a location to explore, a company looks not only at the cost and likelihood of finding oil or gas but at the likely cost and economic return from developing the resource if one is found.

The policy settings for oil and gas exploration should therefore not be considered in isolation, but as part of a suite of policies that ensure Australia remains an attractive location for oil and gas exploration, development and product marketing.

Australia is an expensive place to explore. It is geographically remote from other oil and gas producing regions of the world, adding time to all aspects of the life cycle and making transportation of critical equipment costly. In addition, in some of the offshore areas weather and ocean conditions are harsh and unpredictable. Finally, because of its geology, Australian exploration success rates are among the lowest in world.

In February 2002, ExxonMobil participated in an industry-wide study, conducted by international oil and gas consultants Wood Mackenzie, which rated the world's oil and gas producing regions. The study found that offshore Australia ranked 46th in the world in exploration drilling success, with a commercial success rate of a little over 6%. This compares with other locations such as Malaysia with a commercial success rate above 50% and Angola with over 40%.

The study went on to rank the world's oil and gas producing regions on a risk vs reward basis. The study looked at all of the risks associated with exploration, development, production and then marketing of products and included country and political risk, and fiscal and regulatory regimes. Offshore Australia rated at number 30, ranking below countries like the US, UK and Indonesia.

Consideration of ways to increase exploration in Australia should take into account possible measures to improve Australia's global ranking as an investment location for oil and gas development. It should capitalise on Australia's economic and political stability by offering an attractive investment environment that acknowledges the risks and uncertainties for the whole of the industry rather than being focused on penalising the few successful explorers with a high tax environment.

To do this it is likely that Australia will need to move beyond merely comparing its fiscal and regulatory regime with other regions in the world. The low commercial success rate of drilling in Australia alone means that the regulatory and fiscal environment in Australia needs to be better than those regions with natural geological advantages.

The following are areas that ExxonMobil believes could be improved by Government:

Streamline Government Approvals Processes

Many oil and gas exploration and development projects cross jurisdictional boundaries within government and others by virtue of their geographic location are subject to both State and Federal legislation. Steps to streamline approval processes, such as providing a single government focal point, reduce risks of project delays and can improve economics by reducing the time between initial investments and start of production.

A recent example where this was not done was the introduction of the Environment Protection Biodiversity Conservation Act (2000). The oil and gas industry must now make separate referrals for projects under the EPBC Act and under the PSLA. In most cases the potential environmental impacts included in the referrals are relevant to both Acts. A single assessment process for environmental approvals and compliance with the relevant legislation should be implemented as a matter of urgency.

Land and Marine Access

In order to ensure future oil and gas security, there is a need for continued access to explore for resources in new areas.

It is important that current Commonwealth proposals to develop marine protected areas and develop regional marine plans do not exclude marine areas from oil and gas exploration, or are selected so that they secure the environmental objectives without having a negative impact on multiple uses, including oil and gas exploration and production.

Experience in Australia and around the world demonstrates that oil and gas extraction is a relatively environmentally benign process that continues for a relatively short period of time, with little or no local environmental impact. In areas where the industry operates, the "footprint" is generally small.

The oil and gas industry should be given the opportunity to demonstrate that it can operate in a way that is compatible with the conservation values of the marine environment.

Taxation

Taxation is one of the primary factors that affects the economic quality of development opportunities in different jurisdictions around the world. The Australian tax regime and its impact on the global tax position of our worldwide group of companies are important features when considering new investment opportunities. The benefits of local tax incentives can be significantly diminished if they result in an increase in taxes outside Australia. Further, Australia should ensure that its local taxes, in particular secondary taxes such as petroleum resource rent tax, are creditable in foreign jurisdictions, including the US.

The petroleum resource rent tax (PRRT) is the Federal Government's primary petroleum taxation mechanism. To ensure that Australia remains a competitive location for oil and gas investment, Government must ensure that PRRT remains a competitive taxation regime.

The current provisions of PRRT fail to adequately recognise the risk-reward equation for high cost deepwater oil and gas exploration. The treatment of large-scale gas projects and integrated projects, including liquified natural gas and gas-to-liquids developments, is also uncompetitive from a global perspective.

The current PRRT regime was introduced at a time when the nature of offshore petroleum operations was characterised by relatively shallow water oil and gas developments. As exploration and production has moved into new frontiers (eg deep water, deeper/higher pressure, etc), other countries, such as the UK and US, have recognised the difficulties associated with these frontiers and have adjusted their fiscal terms to reflect the need for improved risk-reward conditions. For Australia to remain internationally competitive, it must do the same.

Large-scale gas projects require substantial capital investment. They frequently involve the long distance transportation of large volumes of gas and are often structured as large integrated developments. The PRRT regime must allow projects to generate an adequate risk adjusted return if they are to be internationally competitive.

The industry has proposed an increase in the uplift factor for general project expenditure to improve the risk adjusted return on projects. We support this together with the industry proposal to allow a tax free threshold for initial production. These measures would help to improve risk adjusted returns and make investment more attractive for deep water discoveries, major gas projects and small oil projects.

PRRT is designed to capture a share of the economic rent from the upstream extraction and production activities. However, where upstream and downstream are fully integrated, such as an LNG or gas-to-liquids development, there is a lack of clarity as to where the boundary between upstream and downstream should be drawn. While the government recently announced a 50-50 split between upstream and downstream, this does little to improve the economics of major undeveloped resources. ExxonMobil would prefer to see the adoption of an equitable and transparent method for the valuation of gas transferred into an integrated downstream process.

Appropriate Planning Timeframe

The Australian regulatory framework applicable to the Australian gas industry appears to be predicated on a very short time horizon. The gas industry itself operates on time periods of decades, not years. For example, the life cycle of an offshore gas field from discovery through development to abandonment may be forty years. The timing for progressive development of a new transmission pipeline and rural distribution network project may be twenty years. Despite this industry context, it appears that regulators and legislators think of regulatory periods in terms of months or perhaps years, rather than the true life cycle of the investment. For example, the normal period of time between re-sets of regulated pipeline tariffs has been less than five years, despite the fact that the commercial bases on which the investment was made may have been decades. Also, when making decisions related to the level of competition in a market, regulators base their assessment on the current competitive environment, rather than the environment that may exist once the investment is in place. They may come to a different decision if they took account of the level of competition likely to prevail over the medium to long term.

This short term focus of the current regulators and regulatory frameworks they endorse, may not be in the best interests of the consumer because the investment in the industry, whether it be supply, transmission or distribution infrastructure, relies on project time periods of far greater length than one or two years. This short-term focus may mean that investment is not taking place, or if it does take place, investors need to be assured of strong near-term margins so that later uncertainties may be mitigated.

Appendix - ExxonMobil in Australia

ExxonMobil's Upstream assets include:

Gippsland Basin - Bass Strait

Gippsland supplies 20% of Australia's crude oil requirements and nearly all of Victoria's natural gas requirements. It also supplies approximately 20% of the New South Wales market and will shortly begin supplying gas for Tasmania for the first time in that State's history.

More than 3.5 billion barrels of oil and 5 TCF (trillion cubic feet) of gas have been produced from Bass Strait since operations began in 1969.

The Gippsland operation is a 50:50 joint venture with BHP Billiton and in today's dollars represents a cumulative investment of around \$16 billion. Capital expenditure has been exceeding \$400 million annually for the past 5 years, making the Bass Strait oil and gas project one of Australia's largest ongoing development projects.

Current remaining gas resources are in excess of 5 TCF. This represents around 25 years of Victorian average demand. Remaining exploration potential in the Gippsland basin has the possibility of adding substantially to the oil and gas reserves already discovered in this world class basin.

Cooper Eromanga Basin

ExxonMobil has an average 21% interest in the Santos-operated Cooper Eromanga Basin in Central Australia.

Gas from the Cooper Eromanga Basin supplies markets in SA, NSW, QLD and Victoria.

Current gas resources are between 3-5 TCF (Total Project). The remaining exploration potential in this more mature basin is not significant when compared with the already discovered reserves.

North West Shelf

ExxonMobil has a 60% interest and operates the Wandoo offshore oil production facility on the North West Shelf and has a 35% non-operating interest in the Griffin oil and gas production facilities.

ExxonMobil also has equity in significant undeveloped gas reserves on the North West Shelf including Gorgon, Jansz-Io and Scarborough. ExxonMobil believes that Jansz-Io could be the largest gas field ever discovered in Australian waters.

ExxonMobil is actively working with its joint venturers to commercialise these gas resources.

PNG Gas Project

ExxonMobil has a 38% interest and is operator of the PNG Gas Project currently seeking to commercialise gas in the highlands of PNG for sale in Australia via pipeline.

Current gas resources available to the project exceed 6TCF (gross).

ExxonMobil's Downstream Assets include:**Refining and Marketing**

ExxonMobil wholly owns refineries at Altona in Melbourne and Port Stanvac in Adelaide. Altona has a capacity of 130,000 barrels a day and Port Stanvac has a capacity of 80,000 barrels a day.

The company also operates a large lubricants business and supplies a retail fuels network comprising over 2000 service stations.

