Powering Australia's Recovery

Action to support investment, jobs and growth

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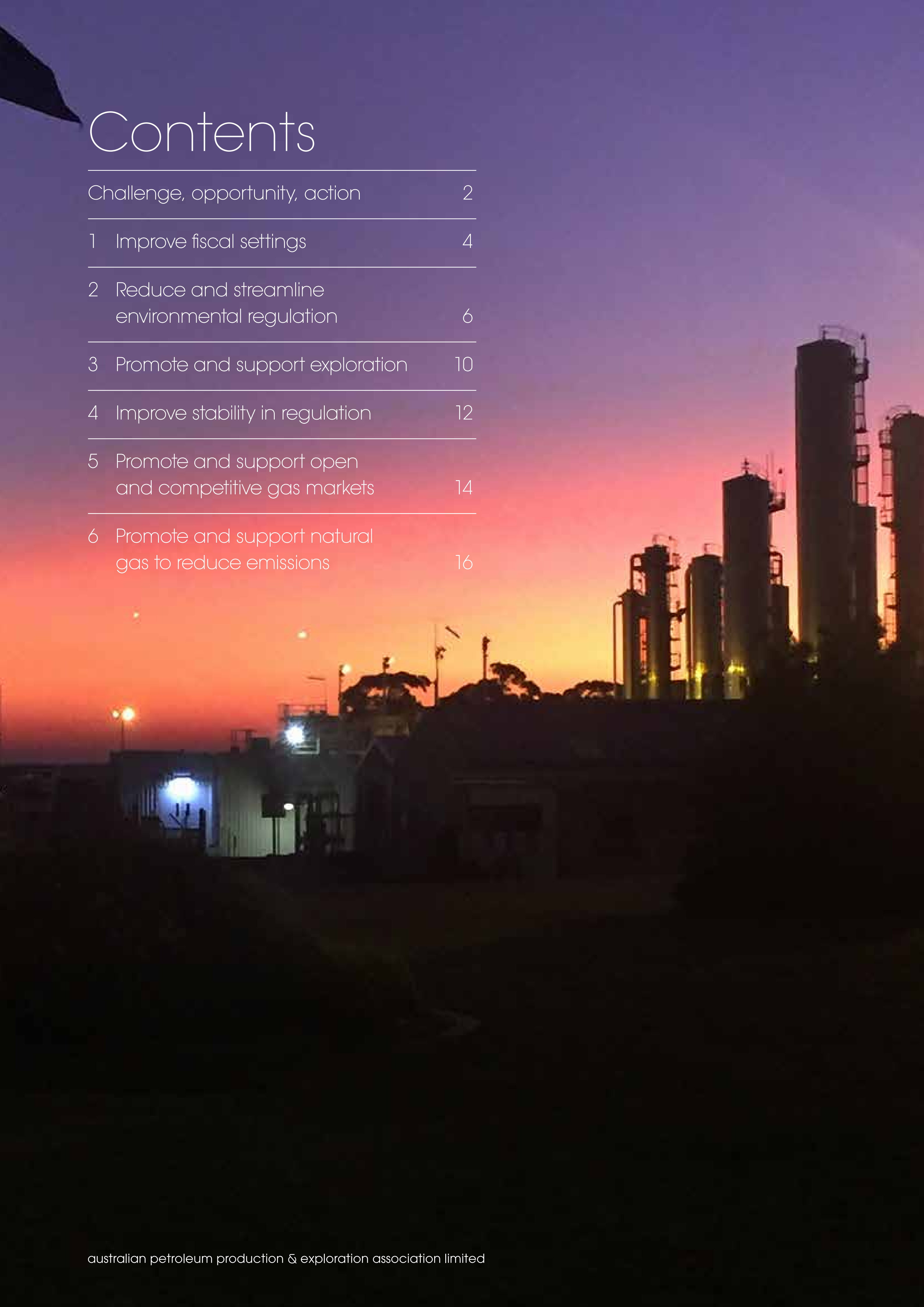

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The Australian oil and gas industry is a major contributor to the Australian economy and to the wellbeing of all Australians.

But like many industries along with the wider economy, the oil and gas industry faces an enormous challenge in recovering from the economic impacts of the COVID-19 pandemic. Current market conditions are arguably the most challenging the industry has ever seen with demand destruction, excess supply and oil prices falling more than 75% over the first four months of 2020.

24%

Natural gas provides almost 24% of Australia's primary energy and almost one third of all gas consumed in Australia is used by manufacturers.

38%

Oil is the largest primary energy source in Australia providing nearly 38% of all energy consumed.

$350b

Since 2010 the industry has invested more than $350 billion into the Australian economy through new project construction and development.

$4.6b

In 2016–17 the industry made tax payments of $4.6 billion and has paid more than $77 billion over the last decade.

$6.3b

In 2018 Australia recorded a $6.3 billion surplus in the trade of oil and gas, with total exports exceeding $40 billion and in 2019 Australia became the largest exporter of LNG in the world.

+18%

In 2018 Australia produced 126 million barrels of oil, down from a peak in 2000 of 287 million barrels. At the same time in 2018 natural gas production increased by 18% and production has more than doubled over the last five years.

60%

Natural gas provides more than 60% of electricity generation in Western Australia and the Northern Territory and almost 50% in South Australia.

70%

Gas is a major energy source to nearly 70% of Australian homes through either a network connection providing natural gas or a bottled gas alternative.

five million

More than five million Australian homes are connected to a gas distribution network.

challenge | opportunity | action

Challenge

The challenge is how to return to growth and best place the industry to respond in supporting Australia's economic recovery.

Opportunity

The opportunity is to provide energy security for homes and manufacturing businesses, generate jobs through exploration and new operations, provide taxation revenue to build schools, roads and hospitals, strengthen our economy as one of our largest export industries and help to reduce emissions both here and overseas.

The strength and speed of that recovery depends on a positive reform agenda that restores investment confidence in Australia.

The opportunity is for the oil and gas industry to help power Australia's economic recovery.

Action

With the full support of industry there are a range of actions government can take to stabilise the industry as it faces strong economic headwinds, fast-track recovery and facilitate investment to create jobs and stimulate local economies, generate more revenue for government and help charge industries back into growth.

This document sets out these initiatives and actions through which, by working collaboratively together, we can help Australia get back on its feet.

1 Improve fiscal settings to attract investment

Opportunity

Global demand for natural gas is forecast to continuously increase to beyond 2040.

Australia has an opportunity to capture the next wave of investment which could deliver more than $50 billion of capital expenditure.

There is an estimated $80 billion of taxation receipts available over the life of new projects but only if Australia can attract and secure scarce capital.

Challenge

Attracting investment in the current economic environment is enormously challenging. There are lower cost jurisdictions than Australia that are competing aggressively for new investment with allowances, offsets and lower taxation rates for sector development. Providing more attractive investment allowances will improve Australia's competitiveness. *Actions 1.1, 1.2, 1.3*

There are substantial project restructuring barriers that prevent joint ventures to structure in a manner that is most efficient. The absence of a CGT roll-over may distort commercial decision-making for investment resulting in productive infrastructure being abandoned and resources becoming stranded without being monetised. *Action 1.4*

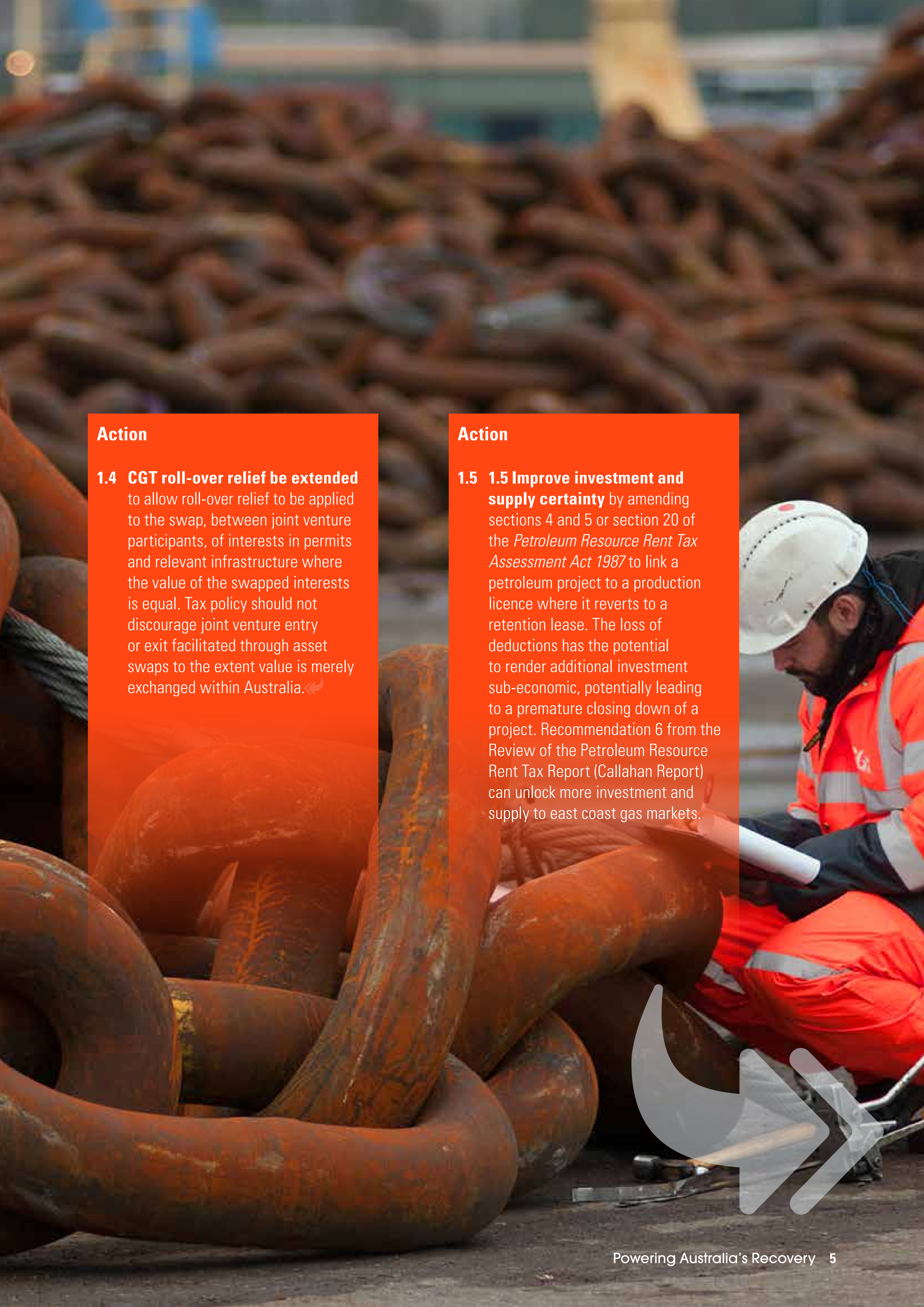
Taxation policies must keep pace with modern commercial practices to ensure Australia's taxation regimes are internationally competitive and attract investment. While the principles of the Petroleum Resource Rent Tax remain the right fit for oil and gas investment and operations in Australia, the legislation does not allow for the commercial practice where a production licence reverts to a retention licence, inhibiting further investment. *Action 1.5*

Action

1.1 Increase employment and job creation opportunities and investment attractiveness by making salary and wages costs immediately deductible for taxation purposes.

1.2 Stimulate new investment through an investment allowance, such as reducing the length of asset lives for depreciation or other allowances under the income tax regime.

1.3 Encourage exploration by extending the Junior Minerals Exploration Incentive (JMEI) to oil and gas explorers or through the adoption of a flow through share mechanism to assist junior explorers to raise capital.



Action

1.4 CGT roll-over relief be extended to allow roll-over relief to be applied to the swap, between joint venture participants, of interests in permits and relevant infrastructure where the value of the swapped interests is equal. Tax policy should not discourage joint venture entry or exit facilitated through asset swaps to the extent value is merely exchanged within Australia.

Action

1.5 1.5 Improve investment and supply certainty by amending sections 4 and 5 or section 20 of the *Petroleum Resource Rent Tax Assessment Act 1987* to link a petroleum project to a production licence where it reverts to a retention lease. The loss of deductions has the potential to render additional investment sub-economic, potentially leading to a premature closing down of a project. Recommendation 6 from the Review of the Petroleum Resource Rent Tax Report (Callahan Report) can unlock more investment and supply to east coast gas markets.

2 Reduce and streamline environmental regulation to reduce costs and attract investment

Opportunity

The independent review of the EPBC Act provides an important opportunity to restore confidence in Australian regulation and consider more efficient approaches to environmental management. A strong signal from government on reform will encourage investment, help facilitate an earlier start to projects, bring forward jobs in regional Australia and support businesses across the supply chain.

Challenge

There is currently a high degree of uncertainty around recovery plans and threat abatement plans. This uncertainty increases costs, timelines for assessment and overall operational efficiency. Activities that are environmentally sound and consistent with the objective of the plan may not be approved due to the prescriptive interpretation of the definition. *Action 2.1*

The requirements in section 527(E) relating to indirect impacts are unclear and need to be defined. *Actions 2.2 and 2.3*

Environmental offset requirements need to be improved. There is no flexibility to develop strategic offsets and offset delivery is strongly focused on a calculation rather than the solution and strategic benefit. *Action 2.4*

> "a strong signal from government on reform will equal earlier starts to new projects bringing forward new jobs."

Action

2.1 The EPBC Act should be amended to ensure the definition of 'not inconsistent' is clear and applies only to the overall objective of the plan, not specific sections within it. Plans should also be drafted to ensure they are fit-for-purpose and allow outcome- based decision making. Under the EPBC Act, the minister may make, adopt and implement recovery plans for threatened fauna, threatened flora and threatened ecological communities listed under the Act. (Section 53). These plans are binding on the Australian Government. The minister, delegates or approved authorities are unable to make a decision, or enter into an agreement, that is inconsistent with any recovery plan or threat abatement plan. An activity that may be inconsistent with any part of a plan cannot be approved. Even if the activity is consistent with the overall objectives of the plan. These prescriptive documents fail to consider project assessment, mitigation measures, biodiversity offsets etc.

Action

2.2 Amendments must be made to Section 527E of the EPBC Act to define how far down the indirect assessment pathway proponents and regulators are required to consider and a reasonableness test needs to be defined.

2.3 Section 527E(1)(n) of the EPBC Act requires consideration of the consequential indirect impacts of an activity, provided that the action is a 'substantial cause' of the consequence. However, this is poorly defined and leading to administrative delays and burdens.[1]

2.4 The Australian Government should amend offset requirements to allow for strategic approaches to offsets, including through the contribution of financial offsets or a pooled fund.

1 See www.environment.gov.au/resource/epbc-act-policy-statement-indirect-consequences-action-section-527e-epbc-act

2 Reduce and streamline environmental regulation to reduce costs and attract investment (*cont.*)

Challenge

Small additional actions are being assessed as new projects even when surrounded by existing approvals. There is a need to allow for variations and extensions to existing approvals.
Actions 2.5, 2.6 and 2.7

Duplicative assessment, as presented in the water trigger, is a preventable burden on Australian Government resources. The water trigger adds duplication and inefficiency for no benefit at a time when clarity and investor certainty are required.
Actions 2.8, 2.9 and 2.10

There is currently inadequate resourcing within the Department to finalise outstanding and overdue EPBC Act assessments. This is adding cost and increasing uncertainty for developers.
Action 2.11

Action

2.5 A variation to approvals should be possible in situations where changes are not determined to be material.

2.6 Reforms to allow flexible pathways for consideration of minor or material changes to existing approvals. This would support projects to adapt, improve and respond to evolving circumstances.

2.7 Companies are unable to sell or transfer petroleum tenure with an existing approval attached. The new operator is required to apply for another EPBC approval. There should be a mechanism to transfer existing approvals to new entities to ensure efficient allocation of resources and capital and to improve commercial opportunities.

Action

2.8 The EPBC Act be amended to remove the water trigger. If amendment is not possible, actions to mitigate the duplication of the water trigger be pursued (see below actions in 2.9).

2.9 The Australian Government undertake a review of the Significant Impact Guidelines. Coal seam gas and large coal mining developments—impacts on water resources to consider amendments to limit interpretation to matters that are truly nationally significant.

APPEA recognises this matter is unlikely to be repealed in the short term, and as such recommends improvements to make it more workable and reduce its impact on investment.

Some of the matters considered under the trigger (water bores, any groundwater dependent vegetation including weeds that are reliant on groundwater) should not meet the meaning of national significance and thus should be changed.

Action

2.10 The Joint Industry Framework provides a framework for compliance with conditions of approval for coal seam gas projects within the Surat Cumulative Management Area. Supporting and finalising this framework will produce an outcomes-based, cumulative-impact, whole-of-resource approach that is aligned with existing legislative assessment, management, monitoring and reporting processes in Queensland. This will have significant benefits in terms of certainty, resourcing and compliance burden.

2.11 In 2019, the Australian Government committed $25 million over two years to reduce unnecessary delays in environmental approvals under the EPBC Act. Additional funding to be considered to further identify efficiencies and reduce the backlog of outstanding approvals and post-approval management plans.

3 Promote and support exploration of Australia's oil and gas reserves

Opportunity

Long-term growth in the Australian oil and gas industry depends on exploration. Available and prospective acreage, capital availability, exploration costs and the ability to commercialise discovered resources all impact on industry growth. Encouraging more exploration establishes a pipeline of future projects for commercialisation.

Challenge

Exploration activity in Australia has steadily declined since a peak in 2008.
Actions 3.1, 3.2, 3.3, 3.4 and 3.5

Action

3.1 **The Junior Minerals Exploration Incentive** is expanded to include petroleum exploration. This enables eligible exploration companies to generate tax credits by choosing to give up a portion of their losses from greenfields mineral exploration expenditure. This improves investment by allowing credits to be distributed to investors.

3.2 **Promote license short permit terms** (three years) with reduced license and application fees and reduced work program expectations.

3.3 **Access to loan guarantees to provide added security for commercial loans** including potential export credit facilities on imported plant and equipment to increase explorers' access to debt finance.

3.4 **Repayable concessional finance.** Facilitate access to capital for exploration projects while ensuring sound commercial operation of the project over the long term.

3.5 **Funding to Geoscience Australia for a regional petroleum systems project** that tries to understand the old and new source rocks of Western Australia and Northern Territories.

> “Long-term growth in the Australian oil and gas industry depends on exploration.”

4 Improve regulatory stability and simplify approval processes to promote more development

Opportunity

Economic and regulatory environments across the states and territories play a critical role in attracting the investment required to develop our substantial gas resources. A decade of relative regulatory stability and sound macroeconomic policies underpinned the unprecedented wave of oil and gas investment and activity which Australia has benefited from in recent years. However, in the last decade the Australian policy and regulatory environment has become increasingly unstable, creating uncertainty and undermining Australia's attractiveness as an investment destination. Returning to a stable operating and policy environment is imperative to attracting new investment over the long term.

Challenge

Regulation cannot be a one-size-fits-all approach and there must be flexibility particularly in determining which offshore petroleum activities require the formulation of environmental plans. The shifting of procedures and goals by regulators is inconsistent with an outcomes-based regime. *Actions 4.1 and 4.2*

There is considerable duplication between state and federal legislation, often existing to achieve the same outcomes. Duplication, prescriptive regulation and regulatory creep needs to be reduced and jurisdictions must have the confidence to support mutual recognition. *Action 4.3*

The Productivity Commission estimates that the cost of a one year delay to a major LNG project can range from $500 million to $2 billion. *Action 4.4*

Action

4.1 Reconsider the definition of petroleum activity. This would move low risk petroleum activities out of the *Environment Protection and Biodiversity Conservation Act 1999*, enabling them to be approved under the *Offshore Petroleum and Greenhouse Gas Storage Act 2006* and the *Navigation Act 2012*.

4.2 Introduce a significance threshold for petroleum activities, whereby activities of significant risk continue to be submitted via the Offshore Project Proposal or Environment Plan processes, and where activities of non-significant risk would not be required to submit an EP. Instead they would operate under an approved arrangement (for example, a standard management system relevant to that activity type).

Action

4.3 Digitalisation—Continue to provide access to, and interactively map, up-to-date government biodiversity data sets. The Western Australian Government's NatureMap initiative should be rolled out across other states and territories.

4.4 Complete the Productivity Commission Review into the Regulation of the Resources Sector and implement key recommendations in consultation with industry by the end of 2020.

5 Promote and support efficient economic operation of open and competitive gas markets

Opportunity

Maintaining access to open and competitive markets is the most effective way to ensuring ongoing growth and investment in oil and gas.

Challenge

In challenging market environments governments must resist calls for policy interventions that force non-commercial outcomes. Some existing gas market regulatory frameworks are inconsistent with and will compound current challenging market conditions. *Actions 5.1, 5.2 and 5.3*

Action

5.1 The Australian Domestic Gas Security Mechanism (ADGSM) remains unchanged until it ends on 1 January 2023.

5.2 The Australian Government does not seek to impose a national domestic gas reservation policy.

5.3 The Australian Government works with jurisdictions to encourage the lifting of bans and moratoriums and the approval of gas projects.

6 Promote and support the role of natural gas to help reduce emissions in Australia and overseas

Opportunity

Gas has an essential role to play in reducing emissions in Australia and around the world. When burned or used for electricity generation, natural gas releases up to 50 per cent less carbon dioxide than coal. In the last decade, around the world, coal-to-gas switching has saved around 500 million tonnes of CO_2. Natural gas generators are flexible technologies which can be easily ramped up and down to meet demand, making them effective complementary counterparts for variable energy sources like wind and solar.

Challenge

A national climate change policy should deliver greenhouse gas emissions reductions, consistent with Australia's Paris Agreement commitments, at least cost and facilitates broad-based investment decisions, including for the development and deployment of emissions reduction technologies, such as carbon capture and storage. Using more natural gas in Australia's power generation and resource processing could significantly enhance the nation's ability to meet increasing energy needs and reduce emissions.

Actions 6.1, 6.2, 6.3 and 6.4

Action

6.1 The Australian Government fast-track (complete by Q1 2021) the development of a carbon capture and storage (CCS) method under the Emissions Reduction Fund.

6.2 The Australian Government include CCS/CCUS and hydrogen (including hydrogen developed from natural gas) as priority technologies under the Technology Investment Roadmap.

Action

6.3 The Australian Government extend, beyond its proposed 1 July 2024 expiry, the inherent emissions variability provision under the ERF safeguard mechanism[2] for the duration of the policy.

6.4 The Australian Government retain equal treatment for pre- 1 July 2021 and post- 1 July 2021 facilities covered by the safeguard mechanism. (i.e. the government does not proceed with the benchmarking proposals).

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2 Contained in section 25 of the National Greenhouse and Energy Reporting (Safeguard Mechanism) Rule 2015.

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