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Offshore oil and gas decommissioning levy

Submission to Senate Standing Committee on Economics

The offshore oil and gas industry provides minimal economic benefit to the Australian community. Any benefits are eroded by decommissioning costs falling on governments as the industry attempts to avoid its liabilities. The proposed levy represents an opportunity to limit the costs to the public from the Northern Endeavour disaster, further measures are needed to protect the public interest.

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Summary

The offshore oil and gas industry provides minimal economic benefit to the Australian community. It provides few jobs and little government revenue, while receiving significant subsidies and tax breaks from government. Offshore oil and gas projects impose significant costs on the public relating to climate change and decommissioning. One gas industry analyst estimates 60 percent to 70 percent of decommissioning costs are borne by governments due to tax treatment of decommissioning expenditure.

While the Northern Endeavour disaster could end up costing over $1 billion, the wider industry faces decommissioning liabilities of over $55 billion. There is no reason to believe similar incidents will not happen again. Indeed, the 60,000 unfunded, abandoned mine sites on the Australian mainland suggest that further abandonments are almost certain. Wherever possible, oil and gas companies will try to pass decommissioning costs onto other, smaller companies and eventually to governments.

The bills that are the subject of this inquiry aim to implement a levy on the industry to recover costs incurred by the Commonwealth Government when the former Woodside facility Northern Endeavor began to fail and the small company that had taken it over from Woodside was unable to fund or manage decommissioning.

The Australia Institute supports the bills, but makes the following recommendations that would strengthen these bills and/or the wider decommissioning framework:

- Provision should be made for the levy to be extended in anticipation of future abandonments, or other public costs such as later discovery of sub-standard decommissioning work and potential future work on sites as scientific understanding and/or community expectations change around decommissioning standards.
- The committee investigate the potential for expanding the proposed levy into a system of decommissioning bonds.
- Improve transparency around decommissioning costs. The details of Northern Endeavour costs were marked as “Not for publication” in the federal budget. This kind of secrecy reduces public confidence in the industry and regulators and limits public input into the wider policy response.
- Improve the transparency of how this levy would operate and how much it might raise. We estimate that it could raise between $300 million and $400 million per year.

- Involve a range of stakeholders in the oversight of the levy and the wider decommissioning task. One possibility would be using Australia's existing Extractive Industries Transparency Initiative Multi Stakeholder Group.

INTRODUCTION

The Australia Institute welcomes the opportunity to make a submission to the Senate Standing Committee on Economics Legislation Committee inquiry into the *Offshore Petroleum (Laminaria and Corallina Decommissioning Cost Recovery Levy) Bill 2021 [Provisions] and Treasury Laws Amendment (Laminaria and Corallina Decommissioning Cost Recovery Levy) Bill 2021 [Provisions]*. The bills propose a levy of 48c per barrel of oil equivalent extracted to be paid to the Commonwealth to cover the decommissioning costs relating to the Northern Endeavour offshore oil and gas facility.

The Northern Endeavour was formerly owned by major oil and gas company Woodside. Woodside sold the project to a small company which subsequently went bankrupt, leaving taxpayers with an uncertain but large clean-up bill.

ECONOMIC CONTEXT

In considering these bills, it is important to understand the economic context of the offshore oil and gas industry. The industry, particularly export-oriented projects, provide minimal economic benefit to the Australian community. Oil and gas extraction employs between 25,000 and 30,000 people, just two in every thousand workers.[1] Australian Tax Office data shows that Petroleum Resource Rent Tax collections have been declining while oil and gas majors such as Chevron, ExxonMobil, Conoco Philips and Santos pay minimal company tax.[2] The industry is overwhelmingly foreign owned, meaning few profits are retained in Australia.

Gas companies also receive government assistance, such as the billions committed to Eni's Blacktip project by the NT government, or the $60 million paid to Chevron for its

[1] ABS (2020) *6291.0.55.003 Labour Force, Australia, Detailed, Quarterly. Table 06. Employed persons by Industry sub-division of main job (ANZSIC) and Sex*, https://www.abs.gov.au/statistics/labour/employment-and-unemployment/labour-force-australia-detailed/oct-2020

[2] ATO (2020) *Corporate tax transparency*, https://www.ato.gov.au/Business/Large-business/Corporate-tax-transparency/

rarely-functioning carbon capture and storage scheme.[3] Such subsidies detract further from the already meagre economic benefits to the community. If the climate impacts of the industry are considered, it is doubtful that recent developments represent a net benefit to the Australian community. If the Government is to incur further expenses for decommissioning, it is certain that many projects become a net economic cost to the Australian community.

This is not just the view of The Australia Institute. Oil and gas industry figures such as respected analyst Saul Kavonic acknowledge that governments often provide subsidies to the oil and gas industry that outweigh any payments received:

> You need to remember that most of the bill for decommissioning is actually borne by the government because it's a PRRT tax credit and it's a corporate tax credit. 60-70% actually ends up getting funded by taxpayers. What you've seen in the North Sea, in some years governments are putting more money into the industry than it is taking out because of decommissioning. That is also going to keep the government a bit wary about being too strict on decommissioning and wanting to keep costs down and spread them out.[4]

Given that so much of the cost of decommissioning falls on governments, the scale of the decommissioning task needs to be considered. The overall combined liability has been estimated at $55 billion by the government and industry funded Centre of Decommissioning Australia (CODA).[5] In considering this estimate, it should be noted that estimates of the decommissioning costs of the Northern Endeavour range from $200 million to $1 billion.[6] Given this, it is possible that the overall liabilities estimated at $55 billion by CODA could run into the hundreds of billions.

The oil and gas industry is keen to defer these expenses indefinitely. Returning again to the discussion by Saul Kavonic at the NT Petroleum club:

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[3] Campbell (2020) *Fracking and slacking: NT Government subsidies to onshore oil and gas*, https://australiainstitute.org.au/wp-content/uploads/2020/12/P886-Fracking-and-slacking-NT-government-assistance-to-onshore-gas-Web.pdf; Cox (2021) *Western Australia LNG plant faces calls to shut down until faulty carbon capture system is fixed*, https://www.theguardian.com/environment/2021/jan/15/western-australia-lng-plant-faces-calls-to-shut-down-until-faulty-carbon-capture-system-is-fixed

[4] Kavonic (2020) *Bracing for low oil*, https://energyclubnt.com.au/event-3808211

[5] CODA (2021) *A Baseline Assessment of Australia's Offshore Oil and Gas Decommissioning Liability,* https://www.nera.org.au/Publications-and-insights/Advisian-Executive-Summary. Note: original figure of US$40.5 billion converted to Australian dollars on 8 November 2021 using www.xe.com.

[6] Milne (2021) *Offshore oil & gas producers to pay for $1B Northern Endeavour cleanup*, https://www.boilingcold.com.au/offshore-oil-and-gas-producers-to-pay-for-1b-northern-endeavour-cleanup/

> As many in the audience would know, companies have not really been decommissioning even once the facility comes to the end of its life. They're just mothballing it and ticking it over and pushing it down the road. I would argue that other things being equal, we wouldn't see [decommissioning boom] looming. If anything companies have no appetite for spending decommissioning dollars while the oil price is low.

Wherever possible, oil and gas companies will try to pass decommissioning costs onto other, smaller companies and eventually the taxpayer, as the Northern Endeavour example has shown. The Department of Industry, Science, Energy and Resources (DISER) acknowledged as much in its consultation on the Enhanced offshore oil and gas decommissioning framework:

> As the industry continues to mature, large companies may move to divest their mature assets to focus on areas of new production potential. Australia can expect to see new entrants to the industry—smaller companies or joint ventures who bring a fresh perspective and a different risk profile. As this transition occurs, government will focus on appropriate stewardship and management of the resource, robust technical and financial capacity of operators and the planning for decommissioning.

"Fresh perspective and a different risk profile" are euphemisms for less reliable companies that will be more likely to transfer risks onto taxpayers, workers and the environment. It is the risks to the community and the environment that the government and regulators should be focused on minimising, not merely managing.

EXTENDING THE LEVY AND OTHER OPTIONS

To summarise, a huge and expensive task is confronting the offshore oil and gas industry, governments and the public. There is no reason to believe that the Northern Endeavour episode will be the only instance of governments needing to fund decommissioning. Indeed, onshore this is quite common. Australia endures 60,000 abandoned mine sites and while many are legacy sites, modern mines are abandoned every year in Australia.[7] The Linc Energy disaster in Queensland shows that the oil and gas sector contributes to this problem.[8]

The bills currently address only the recovery of Commonwealth expenditure on the Northern Endeavour clean-up. We recommend that provisions be made for the levy to be extended to anticipate future episodes such as more abandonments, as well as discovery of sub-standard decommissioning work and the need for future work on sites as scientific understanding and/or community expectations change around decommissioning standards.

We note industry opposition to the current proposed levy, partly on the basis that other companies should not have to contribute to the clean-up costs of failed competitors. However, they provide no justification as to why governments should instead cover these costs. As pointed out by in Mr Kavonic's address to the NT Petroleum Club quoted above, governments already incur significant decommissioning costs due to the tax treatment of this expenditure. Governments should not incur further costs.

The alternative to an industry-wide levy is decommissioning bonds. Mine rehabilitation bonds are used in several states and while most of these systems need to be strengthened – for example NSW holds just $3 billion in bonds while filling coal mine voids in the Hunter Valley could cost $25 billion[9] - a well-designed system would provide an incentive for each operator to make adequate provision for decommissioning. We recommend that the committee investigate the potential for expanding the proposed levy into a system of decommissioning bonds.

OTHER COMMENTS AND RECOMMENDATIONS

We make the following recommendations:

- Improve transparency around decommissioning costs. The details of Northern Endeavour costs were marked as "Not for publication" in the federal budget. This kind of secrecy reduces public confidence in the industry and regulators and limits public input into the wider policy response.

[7] Unger et al (2012) *Mapping and Prioritising Rehabilitation of Abandoned Mines in Australia*, https://www.researchgate.net/publication/236900961_Mapping_and_Prioritising_Rehabilitation_of_Abandoned_Mines_in_Australia; Campbell et al (2017) *Dark side of the boom. What we do and don't know about mines, closures and rehabilitation*, https://australiainstitute.org.au/report/dark-side-of-the-boom/

[8] Queensland Government (2021) *Linc Energy*, https://environment.des.qld.gov.au/management/monitoring/locations-of-interest/hopeland/linc-energy

[9] Campbell and Carter (2021) *Mind the gaps: Unused capacity and unfunded rehabilitation in Upper Hunter coal mines*, https://australiainstitute.org.au/report/mind-the-gaps/

- Improve the transparency of how this levy would operate and how much it might raise. We estimate that it could raise between $300 million and $400 million per year, based on:
  - DISER forecasts published in Resources and Energy Quarterly March 2021[10] of:
    - Crude oil and concentrate production.
    - Western and Northern market gas production.
  - Conversion factor of billion m^3 natural gas to barrels of oil equivalent of 6,428,571.[11]
  - 48 cents per barrel levy applying to all production in each year.
- Involve a range of stakeholders in the oversight of the levy and the wider decommissioning task. One possibility would be using Australia's existing Extractive Industries Transparency Initiative Multi Stakeholder Group. This group has all the relevant expertise and a track record of collaborative work.

[10] DISER (2021) Resources and Energy Quarterly March 2021, https://publications.industry.gov.au/publications/resourcesandenergyquarterlymarch2021/index.html

[11] https://www.unitjuggler.com/convert-energy-from-GcmNG-to-boe.html

Conclusion

Australia derives very little benefit from the offshore oil and gas industry and faces large potential costs if decommissioning is not well managed. The bills represent an opportunity to limit the costs to the public from the Northern Endeavour disaster, but they will need to be expanded and other measures implemented to protect the public, workers and the environment from further failures as decommissioning begins (or should begin) on a much wider scale.