



Australian Government

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E & OE

SUBJECTS: *Release of the independent review of PTTEP AA and government response*

FERGUSON: Let's get underway. You would recall that on the 24th of November last I tabled in the House the Commission of Inquiry report on the Montara petroleum incident. Clearly there were a range of recommendations made, and I also tabled the Government's initial response, which are subject to further consultation and in due course I will report further with respect to the outcome of that consultation.

The report found, I might remind you, that PTTEP Australia [Australasia] had failed to observe sensible best oilfield practice and that there were a range of shortcomings with respect to their performance, but also correctly pointed the finger at the Northern Territory Designated Authority for not doing its job, basically being the policeman on the beat with respect to its regulatory requirements.

Commissioner Borthwick also raised the question of me issuing a show cause with respect to PTTEP's Montara field in terms of its operations.

Whilst accepting the Commissioner's recommendation to actually pursue such a course of action, I also determined that I wouldn't be just looking at PTTEP's performance with respect to the Montara field.

In making that recommendation Commissioner Borthwick also correctly referred to the fact that as part of the proceedings of the Commission of Inquiry PTTEP Australasia had tabled a comprehensive Montara Action Plan going to detailed changes as to how it would operate with respect to its future operations in Australia if a social licence to operate continued to exist.

I requested that my department, at arms length to me, initiate a full inquiry into not just the action plan, but also I suppose the governance arrangements with respect to the method of operation of PTTEP Australasia in Australia.

I then indicated that on receiving that report I would make it publically available within seven days. I received that report on Monday of this week. That report by Noetic has been tabled in the Senate this afternoon as has been the Government response. Accordingly, because I regard this as a serious issue, I've met my previous public undertakings with respect to the independent assessment.

Let's go to that report which is comprehensive in nature. And it didn't just focus on the Montara Action Plan, it goes to what I think is a very important ingredient in terms of petroleum companies' capacity to operate in Australia, it actually goes to their culture and their governance arrangements.

It's just not about regulatory requirements its also about the commitment of a company to actually adhere to those regulatory requirements and have in place appropriate governance arrangements, responsibilities and accountability.

The independent review has effectively resolved that the Montara Action Plan actually places PTTEP Australasia on the path to achieving best industry standards for both good oilfield practice and good governance in respect of all its operations. It also reports to me that the company has already made substantial changes with respect to its method of operation and I might say leadership roles and structures of PTTEP Australasia.

I can further indicate that PTTEP has indicated to my department that further changes are intended in terms of the structure of leadership, both within Australia, and in terms of the Australian operations' international accountability to PTTEP.

Obviously those changes can not be completed until the potential recruits understand that there is, in essence, security of employment if they actually accept job offers in terms of who might be employed to actually put in place this action plan. So, in many ways, PTTEP's final decision on changes and personnel have been held up until they see the outcome of my consideration of whether or not I issue a show cause.

Whilst I am satisfied with the independent report to me I've also determined that in deciding not to issue a show cause I will continue to hold the company accountable in terms of ongoing and comprehensive monitoring. They'll be required to enter into a binding deed of agreement with me, in essence my department, going to an 18 month monitoring program to ensure the action plan is properly implemented.

That will include for example monthly reporting to me conducted by an independent authority, and I might say quarterly meetings either with me or a person I designate, such as the Secretary of the Department, with respect to the implementation of the plan which just doesn't go to the technical issues but also very much the governance arrangements.

As part of that can I say that right through this process I have refused to meet with the company, because I thought it would have been inappropriate if I actually engaged in discussions with them about the nature of the reports to date whilst there were further independent assessments going on to their performance.

I can indicate that now that I have made these decisions I will be meeting with the company in the foreseeable future and in many ways reinforcing in my own direct way what I expect with respect to the implementation of the action plan and the change in governance arrangements.

You should also not forget that I, through my discretionary capacity, have the option, if the accountability processes are inadequate in any way, to issue a show cause following due process at any point in the future, which in many ways rests over the heads of all petroleum companies in Australia in terms of their social licence to operate in our waters.

Noetic's report also makes a range of recommendations as to the industry generally, which have been discussed initially between my department and NOPSA, and that will go to some recommendations as to practice potentially for all petroleum companies in Australian waters.

With respect to PTTEP, can I say that there will be additional conditions, over and above that which were announced some weeks ago with respect to the operation of BP and the grant of exploration licences in the Great Australian Bight. These additional conditions that will apply to PTTEP Australasia are basically as follows:

- they'll be required to lodge with the Designated Authority a statement of governance processes to be applied to the title, including the use of contractors, within three months of the award of any permit to operate;
- secondly, they'll be required to similarly lodge with the Designated Authority a statement of the qualifications and certification of all personnel involved in any operational activity on the titles or the field development plans;
- thirdly, they'll be required to make any staff involved in the operations on a title available for peer review at the discretion of the Designated Authority;
- fourthly, the Designated Authority delegate may seek independent expert verification or advice in relation to the requirements specified in terms of the licence conditions; and
- fifthly, and appropriately, they will meet all the costs associated with meeting the requirements of the Designated Authority with respect to these additional costs [conditions].

I might also say that I was in the United States last week and these issues were clearly top of mind in my discussions in Washington, and I might say I also met with the major petroleum companies for a couple of days in Houston. During the course of those discussions I reinforced my previous commitment to work closely with the United States in terms of the consideration of the outstanding recommendations of the Macondo report and our determination to put in place a single national regulator in Australia.

Discussions were also held with the companies and the US administration about an international conference we will hold in Western Australia in August of this year, focusing on the recommendations of the Macondo and Montara reports. That conference will be highly technical in nature. It will not be a ministerial type

conference; it will be about having a look at the regulatory environment for deep sea exploration and development, and the countries that will be involved potentially speak for themselves. So obviously the Gulf in terms of the US, Australia, Brazil the question of the North Sea, Norway, the United Kingdom, and also closer to home I might say Timor, Timor-Leste and Indonesia.

It will in my opinion be a very important regulatory conference because it's about basically having a look at where we are, what national and international responses can be coordinated, any specifications that might have to be changed so that we get a uniform approach to industry practice and the nature of equipment used. So that is a further step forward in terms of where we go on this front.

I simply say in conclusion that not only is PTTEP Australasia on notice from our point of view, the whole industry is on notice that in terms of your social licence to operate in Australia you must adhere to best oilfield practice, that just goes not just in regard of the regulatory requirements put in place by agencies such as NOPSA, but also goes to internal governance capacity.

Any questions?

QUESTION: Given that it was the worst oil and gas spill in Australia's history, there'll be a lot of people rather surprised that you haven't at least asked them to show cause. What does that say about the culture which you refer to that affects governments worldwide to keep industry potentially at the risk of the environment?

FERGUSON: The role of government is to actually have best oilfield practice in place. I remind you that the Montara Commission report found no fault with our regulatory framework; it found fault with the Designated Authority, the Northern Territory and with PTTEP Australia [Australasia] with respect to the manner in which it went about its business. The response from the Australian Government has been clear. Firstly, we're absolutely committed to putting in place a single national regulator so that we have a uniform approach to these issues in our waters. And I intend pursuing that legislatively this calendar year.

Secondly, it then went to the performance of a particular company. They had, during the Commission of Inquiry, presented the Commission with a new work plan as to how it would conduct its activities from a technical point of view in Australian waters in the future.

I wasn't satisfied with that because it's not just about technical issues. It goes to governance and your capacity to actually handle the implementation of those technical requirements of agencies such as NOPSA.

The Noetic independents review has been concluded on the basis of that report. I'm not going to issue a show cause because we think there is a capacity for this company to adhere to the requirements expected by the Australian community.

QUESTION: What was it about the culture of the petroleum industry that you were referring to? What are the findings there?

FERGUSON: Well the culture in terms of PTTEP Australasia actually went to its internal management arrangements and the capacity of the people. Changes have been made but PTTEP has also indicated to me that there are going to be further changes in personnel. But as I've said, those changes can not be completed until the potential candidates for appointment had a sense of job security. And the announcements of today will be top of mind in the consideration of those people as to whether they accept job offers with PTTEP Australasia.

QUESTION: I think you actually referred to the culture of all petroleum companies, correct me if I'm wrong...

FERGUSON: I indicated that in terms of the whole petroleum industry that the community expectations have changed in terms of the outcome of the Macondo and Montara accidents. And we more than ever have got to go out of our way, both domestically and internationally, to put in place the best oilfield practice and to continue to improve that practice over time.

QUESTION: Does that mean with the regulations or the conditions that you've set for PTTEP will apply to all companies?

FERGUSON: Each application both for exploration permits, and I might say a permit to operate, is considered individually and on merit. I've clearly indicated today that in terms of PTTEP Australasia I have laid down additional conditions, as I did with BP in terms of their potential exploration activities a couple of weeks ago.

It will now be for the regulators to consider on a case by case basis whether or not similar conditions on merit should be applied to other applications in the future.

QUESTION: If there are cultural problems in the company, and that's a fairly amorphous concept in some ways, how is the government actually going to physically check that and how will you actually during this process gauge whether there have been cultural changes?

FERGUSON: Well firstly Noetic has actually through its process, which has extended over some months, actually gone through that thoroughly. But secondly I've announced today that the company will be required to enter into a deed of agreement for a period of 18 months in terms of ongoing monitoring, of changes not just going to the implementation of the technical requirements of their action plan but also changes in the method of operation from an internal governance point of view.

There will be monthly reportings to me and quarterly meetings to actually discuss those outcomes and I'll be reinforcing my expectations to the company when I meet them over the next week.

QUESTION: Have you had any advice on any possible prosecution against PTTEP for their breaches?

FERGUSON: Well obviously as the Minister I'm aware that NOPSA has done an investigation and that a brief has been presented to the DPP on the basis of which they determine whether or not there is a case to be pursued. That clearly is not a matter that ever comes before me. My department is also assessing whether or not there are any further actions that may be necessary.

QUESTION: Is this in terms of paying costs....

FERGUSON: The costs of the accident have been fully met by PTTEP Australasia, and I must say to be fair, from day one, and it was the senior company representatives from Thailand that didn't question that, they actually said we accept full responsibility. I've had no difficulties, nor has the Department of Environment in terms of the recovery of the costs of this accident.

QUESTION: Many, many months ago now there was a very serious incident on Varanus Island. It basically blew its stack and WA lost a third of its gas. There's a report that Norman Moore, your state counterpart, has got and he's refusing to release it, he's refusing to table it and with this debate about the national regulator do you think it's about time the Mr Moore did table it or at least release some form of it?

FERGUSON: Firstly I'd love to get my hands on it because I want to fully assess it. But I can't get access to it at the moment because the WA government has determined it would be inappropriate to release it because it may impinge on potential legal proceedings.

I remind you that that incident occurred in Western Australian waters not in Commonwealth waters. Clearly we cooperated because it had such a serious impact on the supply of energy in Western Australia, and I might say it impacted on the operation of business.

I'd like to see it because the debate at the moment is about competency and the need to strengthen our regulatory capacity and I think that report may have gone to the capacity of the Western Australian agency, which is pretty central and relevant to a debate about whether we need to make change.

QUESTION: The WA government has been against a national regulator too. What can you do about that?

FERGUSON: Well I'm determined to pursue the establishment of a single national regulator, I think it is appropriate. I remind you that most of the petroleum activity is actually in Commonwealth waters, and constitutionally it's been well established that we have responsibility with respect of the management of those resources.

Industry is supportive of my intent, as is every other state and territory government. I think we've got to take the politics out of this. When you think about where we are today as against ten years ago, we're on the verge of going from the fourth or fifth largest exporter of LNG to the second largest export of LNG.

This is going to be an industry that is going to create considerable wealth for Australia. In no way should we leave any question mark on the mind of the

Australian community about our capacity to regulate it. There is no alternative from my way of thinking. You need a strong, single, uniform, national regulator and I am determined to see this debate through to the end because those who want to resist that change want to think about if something goes wrong, you are potentially fighting three reports that have recommended a single national regulator and if something occurs then it is on your head.

I would also indicate that in terms of the US, the Macondo Commission's, and there have been various reports, are very much of the mind that there should be a single national regulator, and I might say they also are very supportive of our approach from a regulatory point of view to this industry.

QUESTION: Minister I came in at the end of the press conference, excuse me if you've already covered this but just looking over what you've got here, basically the company's going to be subject to a monitoring program of 18 months, there has been changes at the top. What would you say to Australians who say it looks like they're getting off scot free and I guess secondly, could you actually put a dollar figure on the cost rather than PTTEP will have to pay for the clean up? Do you have a figure for that?

FERGUSON: Well the cost of the clean up to date is just under \$300 million. The company has met the full the cost. They've also got ongoing costs that they'll have to meet in terms of the environmental monitoring. They voluntarily entered into such an arrangement over the last 12-15 months.

The industry hasn't got off scot free, not just PTTEP. There's a very clear message to the industry that your social licence to operate in Australia can not be taken for granted. Yes - this industry is exceptionally important to us from an export point of view and from an employment point of view, but we also require the strict adherence to the best possible standards in terms of health and safety and the environment. And that's why I want to establish a single national regulator, not just going to health and safety but also environmental considerations, because if you have an accident not only do you endanger the safety of the working people you also endanger the environment, and those issues are inseparable from my point of view.

QUESTION: It's going to cost them \$300 million to clean this up...

FERGUSON: It's already cost them \$300 million.

QUESTION: Most people would say fair enough, that they cause the mess, they should pay for it, but other than that they're subject to a monitoring program, I mean couldn't you have come down harder on them?

FERGUSON: If you'd been here earlier and at previous media conferences where I'd handled these issues and also read the various reports you'll notice I've also had to put in place substantial changes with respect to their technical capacity, and operational capacity, and I might say there've been changes with respect to personnel and there'll be further changes going to their governance capacity.

This company is in essence on notice. You either meet the requirements expected by the Australian community or your social licence to operate in Australia will disappear.

QUESTION: Minister after the cyclone and after the Prime Minister's comments on a carbon price do you expect any further cuts to clean energy projects in the lead up to the introduction of a carbon price?

FERGUSON: I think I've just been through a round of changes in clean energy program outlays. The Prime Minister's indicated there are additional costs as a result of the cyclone and these will be given due consideration by the Government as we go forward. I've got no idea what the hit list is at this stage but I think I've made sufficient contribution I might say.

QUESTION: Minister the Borthwick inquiry said that the environmental costs may never be known, now I know that you're trying to deal with that but do you think the industry should be doing more to convince Australians who are deeply concerned and possibly upset about that to convince us that they can work in a way that protects the environment?

FERGUSON: Look obviously I meet with APPEA on a regular basis and I might say their executive board and I've got a further meeting with the executive board in the next couple of weeks. This is top of mind for them.

When you think about it, the companies that operate in Australian waters are the same companies that operate in the Gulf waters; the BPs, the BHPs, the Exxonmobils, the Chevrans etc. They know the ball game has changed, there have been two incidents and you know clearly the Gulf was far worse than what we've had to handle domestically. There's no debate when I sit down with them about the social licence to operate, the community expectations.

They have a further major national safety conference scheduled for August of this year which will be held side by side with the international conference I'll be holding and it's absolutely focussed on technical issues. It's not a political conference, a ministerial conference. It's about bringing together regulators and the industries, and the key contractors, to have a look at where we are and to assess where we go.

And the truth of the matter is that these two incidents are also going to raise the bar with respect to which companies can continue to operate in the industry. Because more and more regulators are going to focus not just on the technical capacity but also the financial capacity to operate in deep sea exploration, because of the potential cost if something goes wrong. And we hope that we have in place a framework that avoids any similar incidents in the future.

QUESTION: On that point Minister, you were lucky in a sense that the Montara disaster had a Thai government owned company as one of those involved. Now if that hadn't been the case then you might not have got the early promise. If it had been another company that didn't have the backing of a sovereign state this might be a totally

different ball game, to use your words, should there be some sort of a levy on industry to set up some sort of disaster fund to cover those who might not be so lucky as being owned by a sovereign state?

FERGUSON: I have an alternative approach. It actually goes to us in the first instance, more seriously looking at the capacity of companies to operate in deep sea exploration. That establishes at first instance whether or not the company actually has the capacity to conduct the activities. And in my opinion that's going to shake out internationally whether or not some companies can continue to operate in this industry. It's the only appropriate way to do it. But I also remind you that if you actually go through the Noetic report, in terms of PTTEP, then we were, the truth is we were fortunate that they actually purchased Coogee Petroleum [Resources]. And I might say this is touched on in the Noetic report.

In having read the Noetic report in terms of foreign investment and the take over, for example of Coogee Chemicals [Resources], the record would show it was a fire sale by Coogee Chemicals [Resources].

My department and I are going to have to make sure that, I think, in any response we give to requests for our view on FIRB considerations the companies are required in thinking about those investments to also have a look at the culture and governance of the companies they're taking over, to make sure that that is properly attended to in those processes.

So the whole range of issues in the Noetic report that, from my own personal point of view, are requiring me to think through how we've conducted ourselves as a department and office in terms of the past; the ball game's changed.

QUESTION: Does the federal regulator have a timeline attached to it? Does it necessarily involve a high court challenge?

FERGUSON: Firstly, I have the constitutional capacity to do this. This is not even questionable. The issue is getting it through the Parliament. I am ambitious about the timeline, it's the first of January 2012. My department is acting on my request, legislation is in the process of being drafted.

It's not something I have discussed with state and territory ministers in more recent times. On being appointed the Minister in December 2007, there had been ongoing debate as to whether or not we should have a single national regulator.

Industry had actually wanted a Productivity Commission reference; it hadn't occurred because of resistance by some state and territory governments. I actually made the Productivity Commission reference straight away and that recommended a single national regulator. That was the first of the reports, the last is the Montara, and as far as I'm concerned I'm going to push on, and I hope that Ian McFarlane, because you actually have a look at the 24 November in his response to the Montara report he indicated his full support for it. I hope that his party room now fronts up to its responsibilities and backs the Shadow Minister.

QUESTION: Minister, wearing your energy cap, what do you think of this hybrid carbon price model that's being floated at the moment? The Government seems to be preparing to put to the multi party climate change committees. Secondly do you fear that it will push up electricity prices for consumers, and thirdly how does nuclear power, would it possibly potentially enable nuclear power to be brought to Australia?

FERGUSON: I've read the public utterances of a range of commentators as to where we might end up on a price on carbon in the future. Let's just wait and see what the outcome of Government considerations is on that issue.

Going to the issue of nuclear power, nuclear power is part of the international clean energy debate. It is a proven source of clean energy, and, in my opinion, it is going to get cheaper over time. A range of countries such as South Korea, China, France etc are doing ongoing research and development, technical breakthroughs. Not only going to get cheaper, you've also got to have a capacity to put smaller reactors in place to suit the size of large and mid size cities.

From Australia's point of view, I don't think we need to invest in that R & D because other countries are doing it for us. It's a bit like, I was asked about hydrogen some years ago, well the US is doing that, there's a limited capacity to what we can do. Our challenge as a nation is to actually test all the other clean energy options and that's what our clean energy strategy is about. Nuclear power is a proven commercial capacity; the issue is whether or not we can actually make the breakthroughs, for example on solar thermal, geothermal, ocean power etc. Then at a point in the future the Australian community in the context of reducing CO₂ emissions will have to make a decision as to what is the best and most commercially viable form of clean energy.

There's no doubt in my mind that over time there will be a nuclear debate in Australia, but I must say as I look forward to our forthcoming national conference, that is not top of mind for me, because as far as I'm concerned, just like we're investing in a range of clean energy R & D opportunities, other countries are doing the necessary nuclear work. Test them all and see what falls into place from a market point of view.

QUESTION: It sounds to me that you're saying you'd like to see nuclear power in this country if it's economically feasible. Is that correct?

FERGUSON: It's not a question of what my personal view might be. I've been upfront, nuclear power is a proven form of clean energy. There will be a very serious debate in Australia at some point in the future as to how we reduce our CO₂ emissions whilst maintaining a reliable supply of energy at the cheapest possible cost, and that form of energy is going to be determined by what is the outcome of technical breakthroughs on all forms of clean energy.

And no single country can invest the necessary resources into assessing the changes needed with all the different forms of clean energy. And in many ways my views confirm with the Cancun conference recommendations where from here on in the real focus is on technology, establishing an international fund or the spread of that

technology, and working out how each country meets their voluntary requirements with respect to reduction of CO₂ emissions.

For Australia, the immediate future, and in terms our own party's national conference this year is not a nuclear debate, it's actually about resolving a price on carbon and making sure we continue on the R & D front.

QUESTION: Minister, just very briefly back on PTTEP, if the rules of the game have changed fundamentally, I'm just trying to get a sense, do you believe, and cultures need to change, do you believe that the company's culture has changed? Is that why you aren't taking action or is that what you're monitoring of the next 18 months?

FERGUSON: On the basis of the Noetic report I'm not issuing a show cause for two reasons; firstly an action plan has been put in place by the company going to their capacity to adhere to the technical requirements established by our regulatory framework in Australia. I then went one step further, because I don't think your social licence to operate is just related to your technical capacity, it actually goes to your internal governance capacity.

The company has made changes which are quite substantial in nature going to responsibilities and appropriate accountability mechanisms, but I want to go one step further, a memorandum agreement and 18 months further monitoring. And I'll also do that in the knowledge that the company has informed my department that there will be further changes in personnel and that the parent company will be more deeply involved in making the changes that they perhaps should have made as to the method of operation of the company soon after the takeover.

Thanks for you attendance.