

BARROW ISLAND AMENDMENT BILL 2015

Second Reading

Resumed from 18 March.

Declaration as Urgent

MR J.H.D. DAY (Kalamunda — Leader of the House) [1.09 pm]: I move —

That the bill be considered an urgent bill.

I will speak briefly to the motion. The Barrow Island Amendment Bill 2015 relates to the agreement between the commonwealth and the state whereby the commonwealth will indemnify Western Australia against 80 per cent of the state's liability under the state's statutory indemnity in relation to the Gorgon liquefied natural gas project—the Gorgon joint venture. The undertaking of a post-closure indemnity was provided to the Gorgon joint venture in 2009 during its consideration leading to a final investment decision. Subsequent arrangements were agreed to by the commonwealth and the state to have such an indemnity in place by 30 June this year. In July of last year, cabinet approved the Premier executing the state–commonwealth agreement to provide that 80–20 ratio of indemnity to the state. The agreement was executed by the Prime Minister on 13 February this year—quite recently—and there is a termination clause in the agreement that requires the bill to be enacted by 30 June this year, unless otherwise agreed by the parties. Understandably, there is an expectation from the Gorgon joint venture that the indemnity will be in place prior to the expected commencement of the injection operations in April 2016. The bill has been fairly recently drafted, as I understand, and has quite recently gone through cabinet. There is a need for the bill to be agreed to by both houses of Parliament before 30 June this year, and therefore it is imperative that the bill be debated and consideration concluded in this house before the end of this week, so that it can be introduced into the Legislative Council on Thursday to enable it to pass by the required date.

Mr W.J. Johnston: Did you say that the agreement was that the bill be passed by 30 June, or that it be introduced by 30 June?

Mr J.H.D. DAY: The agreement requires the bill to be enacted by 30 June 2015. I commend this urgency motion to the house.

MR W.J. JOHNSTON (Cannington) [1.12 pm]: The opposition, of course, does not like to truncate the ordinary procedures of the house. There is a good reason to have three weeks between the second reading speech and the commencement of debate on a bill; it allows a wide process of discussion. We have only had since last week to look at this bill. We have had the benefit of a briefing from the agency, but we have not had any opportunity to widely canvass the issues in the bill. That makes the Parliament's capacity to consider the legislation suboptimal. I was not aware that the bill had to be passed by 30 June. Often, state agreement legislation has to be introduced by a particular date but normally does not have to be passed by a particular date. We certainly would not like to put anything in the way of ensuring that the commonwealth provides its 80 per cent indemnity to the state, but we do not know the full facts and have not had the opportunity for further discussion. We did not specifically ask the agency questions about the time line; we were dealing more with the technical aspects of the bill. However, we have always found that we can take the word of the Leader of the House, and we will take his word on that. We find it surprising that the government entered into an agreement that obliged the Parliament of Western Australia to take action and that again we have the executive truncating the capacity of the Parliament to act. That is not a practice that should be allowed. We will not delay the bill. We have given the government a commitment to have the bill passed by some time tomorrow, and we will adhere to that, but it is not ideal when there is not proper opportunity for discussion, particularly if an agreement between two governments has acted to truncate the capacity of the Parliament to act in its sovereign right. That would be very disappointing. We note our objection to this practice, but we will not divide on this motion.

MR C.J. TALLENTIRE (Gosnells) [1.15 pm]: I rise to voice my concerns about the haste with which we are being required to deal with this bill, noting that the bill refers to one of the longest time spans that we know of—geological time. To deal with technically complex legislation requires members to grapple with new technology. That is one of the exciting aspects of this legislation; it is about something very new—geosequestration on a huge scale. Chevron and its Gorgon partners have been talking about this project for a long time. It does not really make sense to me why we are being asked to deal with this legislation in such an unseemly rapid-fire fashion, when surely there could have been a way of doing it that would have given members time to consult with stakeholders, get their heads around the technical complexities, and properly consider all the legislative implications of this shift of liability. It is a very complex area, so for us to be rushing this through without proper explanation does not make sense to me, but I look forward to hearing the Premier's justification for the urgency.

Question put and passed.

Second Reading

MR W.J. JOHNSTON (Cannington) [1.17 pm]: I am the lead speaker for the opposition on the Barrow Island Amendment Bill 2015, and I begin by saying that the opposition will support the bill. I will make a few comments. Firstly, this is a very complex area. I went back and looked through the debate on the Petroleum and Geothermal Energy Legislation Amendment Bill 2013 from almost two years ago. That bill dealt with geosequestration outside of Barrow Island, and the debate on it was very complex. I will start by talking about what geosequestration is all about. It is the idea of capturing carbon and storing it “permanently” underground. One of the difficulties in dealing with carbon pollution is that often the point of combustion is the first opportunity to deal with carbon. With liquefied natural gas, there is also the opportunity to deal with carbon emitted during the processing of the gas and getting it ready for use—in the case of Barrow Island, freezing it to a liquid and transporting it. Different gas fields have different amounts of carbon occurring naturally in the gas reservoirs. That carbon is vented during the processing of the gas. Because it is coming from a single source, it is quite easy to capture it, which is very different from post-combustion capture, which is often talked about in respect of the burning of coal. Unless the coal is processed, the first opportunity to capture the carbon is after it is burnt. We are talking here about capturing the carbon that occurs naturally in the reservoir, not the carbon that might be emitted by the gas when it is finally burnt in a power station in Japan, Korea, Taiwan or wherever else it might end up being used. One of the issues here is that the Gorgon field is particularly high in carbon in its natural state. When the Barrow Island project was first being considered all those years ago, one of the considerations was what would happen with all that carbon. Indeed, when Chevron and its joint venturers approached the former Labor government to seek the approvals, one of the advantages that Chevron identified for basing the project on Barrow Island was the fact that the carbon could be reinjected underneath Barrow Island. The Premier would remember that he said the carbon could be stripped on the island, reinjected, and the gas could then be transported to shore for processing. One way or another, whether that project or Chevron and its joint venturers’ project were to proceed, the idea was to reinject the carbon into the very deep aquifers underneath Barrow Island. To make this clear, we are talking about injecting carbon 2 000 metres under the surface of the island. One of the effects of that—I am not a science graduate and I have no particular knowledge of science—is that increasing the pressure on the gas reduces its volume. Therefore, by the time the gas gets down to 2 000 metres beneath the surface of the earth, with that enormous pressure—I do not know the proper term—the gas is effectively a liquid and occupies a very small space. That is how 1 000 000 tonnes of carbon can potentially be injected into what seems to be a very small space.

Again, I am not a scientist and I am unable to properly describe the way that carbon reacts with the rock and the salt water at those great depths, but it is supposed to calcify—I think that is the right term—or turn into a solid. Of course, not all the carbon will calcify in one spot because whatever the reaction is that occurs in the formation, it progressively moves out from the point of injection. As it does, the process of the gas turning into a solid continues at the edge of that plume of injected carbon, but there is always a small amount that continues to spread. We were presented with some details about this in a map provided by the advisers that showed the expected progress of the plume under Barrow Island from the time of starting the injection to the computer model for 1 000 years from now. Why is this an issue? There are two separate issues involving risks. The first issue is that the carbon may escape explosively out of the ground through a fracture or fissure and damage the island’s surface. If infrastructure was located above where the gas escaped, it could potentially cause physical damage to whatever is there because of the immense pressure. That is discussed in respect of the south west geosequestration project in the Harvey region of Western Australia. The second risk is that escaping CO₂ contributes to global warming and carbon pollution. The conundrum for everybody is that in geological terms, 20 years is no time at all—it is not even the blink of an eye—and 1 000 years is barely the blink of an eye. If it has taken 50 million or 60 million years for the formations underneath Barrow Island to take their current form, 1 000 years is no time at all. That is the conundrum when we are talking about a permanent storage solution because none of us have done this, so we do not know what 1 000 years of carbon sequestration is going to look like, much less a million years or five million years of carbon sequestration. We had quite a debate on another bill about the term “permanent”—which was not actually described in that other bill—because how permanent is permanent when we are talking about a million years?

There is the question of liability. The liability will belong to the companies until 15 years after the minister issues a certificate. There are procedures for the minister to issue that certificate, but basically it means that the reinjection of carbon has ceased and the minister is satisfied that the proponent, the Chevron joint venture, has taken appropriate action to ensure that, to the extent that is reasonably possible, the carbon will not escape. The potential liability 15 years later for that injected carbon will transfer from Chevron and its joint venture partners to the Crown and the right of Western Australia. Given that the commonwealth gets 90 to 95 per cent of the tax benefits out of the Gorgon project through the petroleum resource rent tax and commonwealth company tax, and Western Australia gets no royalties at all, but only gets some —

Mr C.J. Barnett: Payroll tax.

Mr W.J. JOHNSTON: Payroll tax—that is the word I was looking for. As there is almost nothing else in it for the state, it is only appropriate that the commonwealth bear the principal liability for this potential liability. That is what this amendment is about. The amendment recognises an agreement made between the commonwealth and the state in relation to an indemnity of the state of Western Australia for a proportion of the long-term common law liability in respect of carbon dioxide injected under Barrow Island, Western Australia, pursuant to the Gorgon Gas Processing and Infrastructure Project Agreement 2003 (WA). The commonwealth is indemnifying Western Australia for 80 per cent of the potential liability.

It is very hard to cost that liability because nobody has lived for a thousand years to know what is going to happen. Some of my colleagues are going to talk about some of the other geosequestration projects that are happening in other parts of the world, but as I understand it, this is the world's largest geosequestration project. Although some of these projects have been going for what we might think of as a relatively long time—10 to 15 years—it is still only a short time. Each of these projects is necessarily different because each part of the world is not the same. As laypeople, we have to rely on advice, and the advice we received from the experts is that this system will work and that Barrow Island is stable and, once injected, the carbon dioxide will stay in place for the reasons that I only barely understand, but have tried to outline. The experts also tell us that there are risks. There needs to be an indemnity against those risks. That liability lies with the proponents for the project, plus 15 years, but beyond that it will go to the state.

We had this discussion previously but I will raise it again. I am advised by people in industry that these long-term liabilities are relatively cheap to insure against. When I last talked about it, I used the example I am about to use; that is, the trilogy of books *The Hitchhiker's Guide to the Galaxy*. One of those books is *The Restaurant at the End of the Universe*. To pay for dinner at the restaurant, Milliways, one has to deposit 1c in a bank account and one billion years of compound interest pays the bill when one has dinner there. We do not have the benefit of time travel so we cannot benefit from that way of paying for our unbelievably expensive meal. Equally, if we insure against a liability that might occur in 100 years, it is very cheap.

Just as a complete aside, the cost of insuring against death by comet impact is extremely high. Even though the probability of it occurring is very low, the number of deaths is very high so the insurance companies cost that very, very highly. On the other hand, if we are insuring against an unlikely event in a distant future time, the cost is very small because of the benefit of compound interest. The new environmental financing system in the mining industry in Western Australia works by charging a small tax on all the operators to create a pool to deal with environmental liabilities. We have been able to withdraw the environment bonds. Insuring against the future potential risk from a carbon dioxide reinjection project is quite small. That is not the process that the government is taking, and we are not objecting to that, but I am making the point that there are different ways of doing this. That is how those countries that have well-regulated nuclear industries pay for the dismantling of plants because they have a very small charge on the electricity produced that goes into a sinking fund to pay for the cost of dismantling and disposing of the plants after 60 or 80 years of operation. They need only a very small insurance premium. But that is not the way we are doing it here.

There is a problem that the liability for this project and any other geosequestration projects will last much longer than any company. Very few companies have been around for 100 years. We cannot expect that the companies we now deal with, no matter how large, will be around in 100 years. We cannot expect them to carry the potential liability on their balance sheet because if they disappear at some time, the liability will have to go somewhere. The government is much more likely to be around in 100 years than any company. We are only a young country but many countries have had hundreds of years of continual government. It is appropriate to put the liabilities onto the government. The question is how it is financed. There are alternatives to the way that we are doing it.

I want to note that the project is getting close to first production. As the Premier said in his speech, the start-up in first gas is expected in mid to late 2015, which is not that long away, and domestic gas is planned for 31 December 2015—the first stage of the domestic train. I know the Premier's view but I note again that the Gorgon project's LNG capacity is 75 per cent contracted at this stage. Only last night I was reading another report out of media in Asia about what is happening with the LNG market. We are already a world-scale producer of LNG but we are about to move way up the curve and become even more important and perhaps become the world's largest supplier of LNG.

The one good thing about the Gorgon project and the Wheatstone project, which is also a Chevron joint venture, is that they are onshore projects for which the significant part of the work is being done domestically. My colleague the member for Cockburn might talk a bit further about local content. When we were in government, we were pleased at being able to secure such a major project. As Gorgon is an onshore project, it makes it a lot easier to negotiate domestic gas needs.

I continue to note the ongoing debate about domestic gas reservation. I was recently talking to executives at Woodside. I know that Woodside would not split from its Australian Petroleum Production and Exploration

Association colleagues because I am sure it does not want to have a war amongst the members of APPEA. The executives noted to me that Woodside had never had trouble negotiating an outcome for domestic gas in each of its projects. I am looking forward to that happening at Pluto, of course. Indeed, Chevron in its two joint venture projects has been able to achieve the same thing. I again note the words of the representative from Chevron when he gave evidence at the domgas price inquiry chaired by the member for Riverton during the last Parliament. He was asked about the commercial issues surrounding the Gorgon domestic gas plant and his answer was that that was not the issue; the issue was that it was a state agreement requirement with Western Australia. Other states may live to regret not having entered into similar arrangements, as we have done here in Western Australia for all of our LNG projects. Again, I make the point that clearly having a domestic gas obligation does not kill off an LNG project because we have such large projects here in Western Australia. If we have the resource and the project is bankable, it will go into production. I am unconvinced of the argument that says a domestic train makes a project unviable. I would love to see the financial details that could show that a domestic plant makes any particular project unviable. As a humble opposition member of Parliament, I do not imagine that I will get to see any such presentation but I would be very interested to see it if I was able to. Of course, we are very lucky to have such large volumes of gas in Western Australia, and it needs to be borne in mind that we have continued to find more gas in Western Australian reserves and our current known reserves are larger than they were 20 years ago. We are very lucky that that has continued to be the case, and I hope that our gas companies continue to put down wells and find additional gas, which will be so important to our future.

It will be interesting to see how we move toward separating the infrastructure involved in LNG production from the fields. I note that there is a sort of tolling feature to the Gorgon project. I hope I get this one right. I think it is from BP's interest in the Io gas field that gas is sold to I think it is Shell at the inlet valve and then Shell sells it back to BP as LNG at the end of the project. That is not quite tolling, but it is very, very close to third party gas. Obviously, the more that we can do with third party gas, the better our industry will be. We will be able to have a higher capital utilisation. That is good for investors because they run their assets harder, and it is good for the state because stranded fields can get to market. That is good for the commonwealth because the petroleum resource rent tax is paid on that, and it is good for jobs because there are more jobs available, particularly for onshore projects and any additional local content.

I was recently at a conference at which people were talking about the Norwegian example of managing the hydrocarbons industry. Industry representatives have raised the Norwegian example with me and have commented that even today the Norwegians always start by going back to the principles that have underpinned their hydrocarbon sector for 40 years unchanged. To think that there could be a government policy that lasts that long and stays intact. That obviously makes it easier for companies making decisions about investment. I also note that Norway has compulsory local content and the highest taxation rate of any hydrocarbon sector in the world. Of course, Norway also has all its royalty income held in foreign currencies. I have always found that fascinating. I point out to people who say that we should be like Norway—I am not objecting to that—that if we were, it would mean that we would have less tax revenue available today to spend, which is either a good thing or a bad thing, depending on one's point of view, because, in the long term, the Norwegians use only the income from their wealth fund and none of the principal of the tax revenue. Norway has a 14 per cent budget surplus. That is in a country with very, very high levels of government expenditure. It is clearly a system that works, but it works only if the decision is made to forgo short-term benefit to take advantage of long-term benefit. There needs to be national consensus about that, because if governments are constantly changing policies, it will not work.

It is interesting, and industry players always point this out to me as well, which I acknowledge, that Norway does not have a domestic gas policy. It does, but Norway's domestic gas policy is to not to use its gas. The preference in Norway is to not use gas, because Norway has a very large hydro-energy capacity, and it does not need to rely on gas like we do. It is a different environment from the one we have in Western Australia and Australia. If we had that sort of long-term low-cost energy source, it would make a real change. In Iceland, which is a highly volcanic place, geothermal resources are used to power electricity, which is why Iceland has ended up with a large-scale aluminium sector. It is a long way from bauxite deposits, but because the energy costs are so low, companies transport alumina from other parts of the world, such as Australia, and process it into aluminium for sale around the world. That is the opportunity that a country gets through having low-cost energy.

In our alumina sector in Western Australia, I note that Alcoa recently announced another review of its business. When I was at the conference on the east coast recently, I spoke to an Alcoa executive who said that he had been involved in the review of the Portland Aluminium smelter, and that the change in two years of what was or was not financially viable was a constant struggle. That is the same for our bauxite and alumina operations in Western Australia. We have to think about what we can do to help that industry, given that energy is such a major component of that industry. We have to ensure that we continue to have competitively priced energy.

What do people mean when they use the term “competitively priced energy”? It is energy that is competitive with other places in the world where the same investments could be made. It is more than just comparing the

energy price with domestic alternatives. One of the arguments about gas prices is that the gas price is lower than the price of diesel to run a power station somewhere in the goldfields, but that is not what we are talking about; we are talking about where else in the world could that investment be done. Investment in a goldmine can be made only where people find gold, but investment in an alumina refinery can be made almost anywhere in the world, particularly now that it seems there is potential for seaboard bauxite trading.

I previously made the point that to our north Indonesia has just banned the export of mineral ore and allows only the export of processed minerals. On the surface, that is an attractive option. Of course, I am always accused by the gas companies of having a different view, because I support a gas reservation policy. This is actually different from gas, because, firstly, all those commodities are fundable—that wonderful word that means that the price is the same wherever it is traded; it is only the cost of transport that makes a price difference. Secondly, there is incredible abundance of all those minerals. Looking at the iron ore history in Western Australia, if one were to say, “You cannot export iron ore; you can only export iron”, we would lose all the jobs in the iron ore sector and other parts of the world would set up steelworks because steel production would be cheaper somewhere else. That is why we export ore and not just finished metals. Of course, if exporting finished metals is going to be financially attractive, we need to make sure that we are providing whatever opportunities we can, and that includes a price of energy that is no worse than it is in other places where projects could be established.

When the former Labor government originally approved the Barrow Island project, I think it was estimated that it would be a two-train project costing \$9 billion. Now it is a three-train project costing \$55 billion. There is always the potential for a fourth train on Barrow Island. The current government or any other government would be very happy to see a fourth train.

Mr C.J. Barnett: You didn’t quite approve it. You developed the state agreement act; I acknowledge that. The final piece in the jigsaw was this bill and the indemnity, and then the approvals happened. I am not diminishing what was done, but it was not approved until 2009 or 2010. But the agreement act is good.

Mr W.J. JOHNSTON: Sure. Yes, we have been through all that.

At the end of the day, governments make approvals of proposals from companies. I do not even remember when the fields were found. Some of them have been around for quite some time. There is no question that it takes a long time for a project to come to fruition. The Premier’s comment reminds me of the saying that governments get to cut the ribbons of opposition projects.

Mr C.J. Barnett: I think gas was discovered in the late 1980s, so it was 25 or 30 years ago.

Mr W.J. JOHNSTON: Anyway, it is a long-term project. In my comments about the Valuation of Land Amendment Bill that we were dealing with yesterday, I asked where else in the world would a centre-left government approve the use of an A-class nature reserve for a petrochemical plant. That is exactly what happened under Labor with the Barrow Island bill. I cannot imagine another jurisdiction in the world in which that would happen. In most places in the world these things do not occur, but Western Australia is a place that is based on resources. I remember the Conservation Commission of Western Australia, under its fine leadership at the time I was state secretary, making the point that it was prepared to agree to an outcome that might not be what it saw as ideal because, firstly, it understood that it would probably go ahead because that was the nature of Western Australia, but, secondly, it would be able to get benefits to offset some of the losses. When I am in other parts of the world and I tell people that a centre-left government approved a petrochemical plant in the middle of an A-class nature reserve, there is some incredulity. One of the reasons is that Western Australians understand that WA is a resource state, and without resources we will not have jobs. The Labor Party is the party of jobs; that is what our name means. It is natural that we are interested in supporting jobs, and that is why Hon Clive Brown did such a great job negotiating with the joint venture partners at the time. After he retired from Parliament, I remember talking to him about some of the things that he was told, such as, “If the government insists on whatever”—I cannot remember what the issue was—“the project won’t work.” He said, “Oh, that’s a terrible shame. We really wanted the project to go ahead.” The next week the proponents came back and said, “Oh, we’ve worked out how to do it.”

Mr F.M. Logan: Some people in this house were opposed to anything on Barrow Island.

Mr W.J. JOHNSTON: Yes, indeed.

Mr F.M. Logan: In fact, that person is the Premier of Western Australia today.

Mr W.J. JOHNSTON: The Premier of the state of Western Australia—yes. The last time we were here I read in all those things. I am not going to do that today.

Western Australians get it. We get the need for the resource sector. That is not to say that we are not critical; that is not to say that there are no problems with health and safety. I do not know the details, but apparently

1 000 workers were trapped on Barrow Island, and not in storm shelters, during a recent cyclone event, and a worker was severely injured in the clean-up afterwards.

Mr F.M. Logan: He lost his legs.

Mr W.J. JOHNSTON: Yes, he lost his legs. These are serious matters about which there needs to be a proper explanation. The need to maintain the quarantine on Barrow Island is clearly a problem for the proponent. I understand that lots of costs have been added into the project because of the need to have that strict quarantine. Of course, the reason that we were able to approve the use of the A-class nature reserve was that the companies committed to provide that level of biosecurity for the island. It is an arc. The industry has often said that if the industry had not been operating on the island for such a long time, the island probably would have been degraded. One of the things done with the environmental fund from Barrow Island was to eradicate vermin on Dirk Hartog Island. It is often said that Barrow Island would have looked like Dirk Hartog Island if it had not been for the oil industry, because the oil industry was incompatible with other visitors. So, the A-class nature reserve was preserving the wildlife and the oil industry was keeping other people off the island. Although there were clearly impacts from the oil industry, there were not those broader impacts that might have happened if it had been a grazing lease or some other higher volume, higher impact activity. The fact that we can have this geosequestration project on the island is very good. We will watch with interest how it progresses, how much the proponent needs to spend on the project and the reinjection, and whether in the short time in front of us the injected carbon dioxide will behave in the manner that we expect it to. Obviously, if this project can work, it will give us confidence that other projects might also work in sequestering CO₂, because we should not forget that what we are trying to do is ameliorate climate change and carbon pollution. The only reason we are doing this project is that we are trying to ameliorate climate change. If we were not concerned about climate change, we would not be putting the company to the expense of sequestering the CO₂.

The south west of Western Australia is one of those places in the world where there have been very significant climate impacts. Indeed—the Minister for Water is in the chamber—I note that the Water Corporation advertisements on television regularly point out to the people of Western Australia the problems impacting the south west of the continent because of the changing climate. The clear impacts of climate change are the effect on our water supply in the metropolitan area, the lower recharge rates of the aquifers that we rely on so strongly for water resources in the metropolitan area, and the lower rainfall and run-off into our dams.

Debate interrupted, pursuant to standing orders.

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