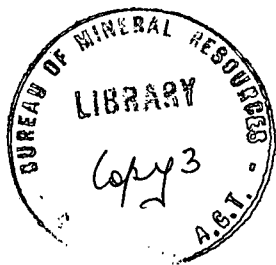


COMMONWEALTH OF AUSTRALIA

DEPARTMENT OF NATIONAL DEVELOPMENT

BUREAU OF MINERAL RESOURCES, GEOLOGY AND GEOPHYSICS



Record No. 1969 / 112

Commonwealth Government
Assistance to Oil Exploration
in Australia

by

*Petroleum Exploration Branch
Bureau of Mineral Resources, Geology and Geophysics*

*Paper Presented at Fourth ECAFE Symposium on the
Development of Petroleum Resources of Asia and the
Far East, Canberra, October - November 1969*

The information contained in this report has been obtained by the Department of National Development as part of the policy of the Commonwealth Government to assist in the exploration and development of mineral resources. It may not be published in any form or used in a company prospectus or statement without the permission in writing of the Director, Bureau of Mineral Resources, Geology & Geophysics.



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COMMONWEALTH GOVERNMENT ASSISTANCE TO OIL EXPLORATION
IN AUSTRALIA

by

Petroleum Exploration Branch

Bureau of Mineral Resources, Geology and Geophysics

SUMMARY

The Commonwealth Government recognizes the benefits accruing from self-sufficiency in oil and encourages exploration in several ways.

The Department of National Development, through the Bureau of Mineral Resources, Geology and Geophysics carries out regional geological and geophysical surveys and experimental geophysical work; the results are freely available to industry. Specialized services such as the provision of maps and of laboratory services are also available.

Generous taxation concessions are given both to the individual investor and to oil exploration and producing companies. Under certain circumstances, the whole of the investment by a private investor is tax deductible. Concessions on sales tax and import duties are allowed to the exploration companies.

Price incentives up to September, 1975 and a guaranteed share of the Australian market up to September, 1980 are also offered.

The most important form of assistance to exploration companies is the subsidizing of petroleum exploration under the Petroleum Search Subsidy Act. Subsidy is now available for approved exploration drilling and geophysical operations onshore at a rate of 30 percent of acceptable costs. Operations in offshore areas are approved for subsidy only if there is an Australian interest in the operation and having regard to the extent of that interest. The maximum subsidy payable in this case is also at a rate of 30 percent of acceptable costs. The Act will be in operation until 30 June 1974.

COMMONWEALTH GOVERNMENT ASSISTANCE TO OIL EXPLORATION IN AUSTRALIA

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INTRODUCTION

The economic and strategic benefits to Australia which would result from the country becoming self-sufficient in oil are well recognized and for this reason the Commonwealth Government introduced several measures to encourage exploration. The measures take various forms and have resulted in decreases in the cost to operators.

ASSISTANCE

The various forms of assistance to the industry include direct participation in regional exploration and sedimentary basin studies, subsidies, taxation concessions, and specialized services made available at little or no cost. There is also a guaranteed market and a special price for Australian crude oil.

Direct Participation

The direct participation is achieved through the Bureau of Mineral Resources, Department of National Development, which carries out regional geological and geophysical surveys and experimental geophysical work. The results of these surveys are readily available to industry and in many cases have formed the basis of additional exploration by the operators. The Bureau also carries out studies of all available information in the various basins and publishes the results.

Specialized Services

The services to industry include the provision of topographic maps, prepared by the Division of National Mapping, Department of National Development, and some laboratory services which are made available by the Bureau to compensate for any lack of commercial facilities. These services include palaeontological and palynological examination of cores and cuttings, core analyses, and a core and cuttings laboratory where representative samples of cores and cuttings may be inspected.

The Government spent an estimated \$3.9 million on petroleum exploration in 1968-69 through the Bureau of Mineral Resources and the Division of National Mapping.

Taxation Concessions

Taxation concessions are provided both for companies engaged in petroleum exploration or production and for Australian residents prepared to invest in such companies. The necessary qualification is that the principal business of the companies concerned is exploring for or producing petroleum in Australia or Papua-New Guinea, including the surrounding continental shelf. The concessions are given under the Australian Income Tax Assessment Act 1936 - 1968 and are subject to the Commissioner of Taxation being satisfied by declarations on the expenditure of funds in petroleum exploration and production.

Section 77A of the Act provides a direct incentive to Australian residents to invest in petroleum exploration. Provided that an exploration company has satisfied the Commissioner of Taxation that the money will be expended on petroleum exploration, the full amount of all monies paid by a person in a year of income on shares in the company, including

application and allotment moneys, is an allowable deduction from all assessable income derived by the person in that year of income. The big advantage of this concession is that it is applicable immediately, and the investor does not have to wait until the actual expenditure of the money. Most of the eligible oil exploration companies have made the necessary declarations to pass on the right to the deductions to their shareholders and the concession has proved to be an important incentive to investors. The benefits claimed under Section 77A are once-and-for-all benefits and having been claimed by the shareholders they cannot be claimed by the exploration company.

Section 77C of the Act provides that one-third of all calls on shares in an oil exploration company is deductible from assessable income provided that the exploration company has declared that the money raised by the calls will be expended on petroleum exploration.

Sections 124 DB to 124 DN of the Act provide concessions to companies engaged in oil exploration and production in Australia and Papua - New Guinea. Special deductions are permitted for all allowable capital expenditure from income derived from the sale of petroleum produced by a company in Australia. Allowable capital expenditure covers all exploration costs, including necessary equipment; capital equipment, including access roads and power and telephone lines, used in oil production; and pipelines and storage tanks at the well head. In addition expenses incurred in forming the company and raising share capital; expenditure on housing and welfare at the site of the operations; and, within specified limits, the cost of acquiring prospecting or mining rights or information may all be regarded as allowable capital expenditure.

Income tax on the proceeds from the sale of petroleum produced by the company in Australian territory need not be paid until the allowable capital expenditure has been fully recouped. Any amount not recouped at the end of a year of income may be carried forward indefinitely until it has been recouped. Dividends paid by a petroleum producing company to its shareholders are exempt from tax up to the amount of the allowable capital expenditure. An important aspect of the concessions is that capital claimed as a deduction under Section 77A cannot be claimed under Section 124 and the company must reduce its claims accordingly. No reduction is necessary in respect of Section 77C claims, with the result that total deductions available jointly to the company and shareholders under the combined sections 77C and 124 may exceed the actual allowable capital expenditure.

Oil exploration companies are also allowed some concessions on sales tax and import duties.

Price Incentives

In September, 1965 the Government offered a special price for Australian produced crude oil which included an incentive payment of 67 cents per barrel. This price was to be reviewed in or before September, 1970 and, after the confirmation of the Gippsland Shelf reserves, was so reviewed. In October, 1968 the Government announced that the incentive payment would continue until September, 1970 for all production other than from the Gippsland Shelf. By agreement with the operators, the price fixed for oil from the Gippsland Shelf area did not include the 67 cents per barrel incentive payment, and allowed for additional discounts of up to 5 cents per barrel. After 17 September 1970, all production will be sold at a price based on import parity. Import parity will be the posted

price of overseas crude as of 10 October 1968, less the discounts allowed off these prices plus freight charges, wharfage, and a quality differential. This still retains an element of incentive from the manner of calculating quality differential and discounts off posted prices, and from any possible fall in the landed price of imported crude over the next few years.

Not only are producers assured of a fixed favourable price up to September, 1975 but they are assured of a share of the Australian market up to September, 1980. This is particularly important for those producers who do not control any market for petroleum products within Australia.

Subsidies

The other form of assistance is the subsidizing of petroleum exploration operations under the Petroleum Search Subsidy Act. This Act was introduced in 1957 to encourage the search for petroleum in Australia and the Territory of Papua and New Guinea, and made provision for the payment of subsidy for drilling operations which were expected to yield significant new stratigraphic information. Subsidy was at the rate of 50% of acceptable costs of the approved operation.

In 1959 the Act was extended to cover geophysical surveys but the emphasis remained on regional and stratigraphic information. A further amendment in 1961 introduced subsidies for test drilling and detailed structure drilling but specifically excluded assessment drilling. An amendment in 1964 included offshore operations, retrospectively to 1959, and omitted certain categories of subsidizable operations for which

there had been few applications for subsidy. An amendment in 1967 extended the date for the operation of the subsidy scheme to 30 June 1969.

The amending Act of 1969 extended subsidy to 30 June 1974 and limited the general availability of subsidy to onshore exploration, which had slackened off. Subsidy is now available for exploration drilling and geophysical operations onshore at a rate of 30% of acceptable costs for approved operations. Operations in offshore areas are approved for subsidy only if there is an Australian interest in the operation and having regard to the extent of that interest. The maximum subsidy payable in this case is also at a rate of 30% of acceptable costs.

An operator wishing to receive subsidy for an operation must lodge an application for approval of the operation under the Act before the operation commences. The application must give details of the proposed operation including an appreciation of the geology and previous geophysical exploration, copies of contracts and particularly a statement explaining the reasons for undertaking the project, the objective, and how it will assist the search for petroleum. A cost estimate must also be included.

All applications are examined by a special group in the Bureau of Mineral Resources, and the Secretary of the Department then makes a recommendation to the Minister for National Development. Should the Minister approve the operation, an agreement is entered into by the Commonwealth and the applicant, making provision for payment of subsidy and specifying the conditions under which it shall be paid.

Progress reports must be submitted regularly to the Bureau and progress payments are made after satisfactory completion of sections of the operation. The final payment is made only after receipt of full information from the project, including a final report and audited statement of costs.

The Bureau maintains close contact with the operator throughout the operation and has the right to publish the results of the operation not earlier than six months after completion of field work. The rapid increase in exploration has prevented the Bureau from issuing formal reports to meet this time requirement and the introduction of alternative methods of making the results available has been necessary. Reports are sometimes published in summary form, or the report and basic data may be inspected at the office of the Bureau, or a copy of the material can be made at the interested person's expense.

To the end of June, 1969, the total expenditure incurred or committed by the Commonwealth under the Petroleum Search Subsidy Acts since the commencement of the subsidy scheme in 1957-1958 amounted to \$90.97 million.

The subsidy scheme has encouraged exploration through reducing the effective unit cost thereof but, at the present time, not as much incentive as in earlier years is being supplied to each operation because of decreases (from 50% to 30%) in the percentage of cost which is paid in subsidy and because of the policy, adopted in 1964, of excluding from subsidy, operations in defined areas around discovery wells and fields.

The volume of exploration increased until 1965 although the total annual subsidy has not changed greatly since 1963. It rose from \$0.5 million in 1958 to \$5.9 million in 1962, and \$10.5 million in 1963. The increase in volume of exploration between 1963 and 1965 was partly accomplished without increased payments, due to the decrease in percentage cost paid in subsidy. However, since 1965, despite the lower volume of work, the subsidy has remained constant because of the swing to more costly offshore operations.