PETROLEUM (ONSHORE) AMENDMENT (ROYALTIES AND PENALTIES) BILL 2012
Second Reading

The Hon. JOHN AJAKA (Parliamentary Secretary) [9.41 a.m.], on behalf of the Hon. Duncan Gay:

That this bill be now read a second time.

I seek leave to have the second reading speech incorporated in *Hansard*.

Leave granted.

The Petroleum (Onshore) Amendment (Royalties and Penalties) Bill 2012 amends the Petroleum (Onshore) Act 1991 and the Petroleum (Onshore) Regulation 2007 regarding the payment of royalties for petroleum production.

These amendments will support the establishment of regional community funds to channel royalties from coal seam gas production into projects to benefit local communities.

The bill also amends the Petroleum (Onshore) Act 1991 and the Mining Act 1992 to increase penalties for certain offences.

These amendments will strengthen the enforcement and compliance framework for exploration and mining by significantly increasing penalties for key offences.

The Government is serious about compliance with the legislation. Those who do the wrong thing may face penalties of up to $1.1 million.

Finally, the bill amends the Petroleum (Onshore) Act 1991 to confer jurisdiction on the Land and Environment Court to hear proceedings under that Act.

The Petroleum (Onshore) Act 1991 sets up a framework to regulate the petroleum exploration and production industry. The Act provides for a system of titles for exploration, assessment and production activities. It provides for payment of royalties by titleholders for petroleum production.

The Act also includes mechanisms to ensure the interests of landholders and the community are protected. These include landholder compensation under access arrangements, and the imposition of environmental management requirements on titles.

To encourage initial investment in the petroleum industry, the Act and regulation established a royalty holiday for production companies followed by an introductory sliding scale of royalty payments.

This meant that petroleum producers did not have to pay royalty on petroleum for the first five years of production. Over the next five years, the royalty amount increased incrementally to 10 per cent of the value of petroleum produced.

The bill now removes this royalty holiday. Royalty payments will commence when petroleum production starts. This will apply to all current and future production leases from 1 January 2013.

In New South Wales, coal seam gas production is currently valued at around $34.5 million per annum. However, given that current estimates of potential New South Wales resources are larger than existing total natural gas reserves for Australia, there is potential for coal seam gas production in New South Wales to exceed $1 billion annually by 2025.

It is understood that the potential for coal seam gas production in New South Wales is similar to that identified in Queensland.

In the last quarter to June 2012, employment in Queensland's coal seam gas industry surged to 18,500 direct and indirect jobs. It is also expected that gross state product will increase to over $3 billion per annum and provide royalty returns of over $850 million per annum.

The removal of the current royalty provisions from the Act will increase revenue to the State and will therefore increase revenue for the people of New South Wales.

In addition to revising the royalty regime under the Act, the bill will enhance the enforcement and compliance framework under the Petroleum (Onshore) Act 1991 and the Mining Act 1992, particularly in relation to environmental management.

I turn now to the detail of the proposed amendments, first in relation to royalties.

The bill will amend the Act to provide that the royalty rate will now be prescribed in the regulation. This is consistent with coal royalties under the Mining Act 1992.

Previously, the petroleum titleholder could make an agreement with the Minister as to the value of the petroleum produced at the well head. This is the value of petroleum that is used to calculate the amount of royalty payable.

The bill provides for the Minister to determine the value of petroleum in all cases, as occurs with coal under the Mining Act 1992.

The bill will also amend the Petroleum (Onshore) Act 1991 to require appropriate measuring systems for petroleum production for the purpose of royalty payments. This will ensure that royalty payments are accurately calculated.

The bill also amends the Petroleum (Onshore) Regulation 2007 to prescribe the royalty rate at 10 per cent of the value of petroleum produced. This rate will now apply to all petroleum produced from 1 January 2013.

Created to encourage petroleum exploration and investment, the royalty holiday provisions have achieved their purpose. The petroleum industry is now a viable and competitive one.

Royalty concessions are no longer necessary. The amendments will bring the Petroleum (Onshore) Act 1991 into line with other royalty regimes, such as for coal mining under the Mining Act 1992.

I turn now to the second main area of amendments. These relate to strengthening the enforcement and compliance framework for exploration and mining.

The bill provides for increased penalties for certain offences in both the Petroleum (Onshore) Act 1991 and the Mining Act 1992.

Current penalties under the Petroleum (Onshore) Act 1991 and the Mining Act 1992 are considered inadequate to act as effective deterrents for a breach or wrongdoing, particularly in relation to environmental management.

The bill therefore introduces a number of key changes to the penalty regime contained in both Acts. It significantly increases the maximum penalty for several offences, such as mining without an authority, failure to comply with a direction, and breach of a condition.

Maximum penalties for these offences have mostly increased to 10,000 penalty units or $1.1 million dollars for corporations and 2,000 penalty units or $220,000 for individuals.

These represent substantial increases. For example, the maximum penalty for failure to comply with a direction under the Petroleum (Onshore) Act 1991 was previously only 100 penalty units, or $11,000 dollars, hardly an effective deterrent for a corporation.

Under the Mining Act 1992 the maximum penalty for stealing minerals and for obstruction of a person exercising their functions under the Act was 1,000 penalty units or $110,000. This will now also be increased to $1.1m for a corporation.

These maximum penalties are consistent with penalties for similar offences under the Protection of Environment Operations Act 1997 and the Water Management Act 2000. The amendments recognise the serious nature of these offences. A breach of a condition or a direction could have the potential to significantly impact the environment. The amendments show how serious the Government is about preventing harm and dealing with those who do the wrong thing.

The bill also introduces a number of amendments to support the increased penalty regime.

These include providing the Land and Environment Court with jurisdiction to deal with offences under the Petroleum (Onshore) Act 1991, and increasing the penalty limit for offences that can be dealt with by the local court.

In summary, this bill introduces important reforms designed to meet the needs of a growing, financially viable industry.

Removal of the royalty holiday provisions will ensure this State, and by consequence, the people of New South Wales, can financially benefit from our resource rich land.

The increased penalty rates will serve as a reminder to industry about the importance of best practice, especially In relation to environmental management, when conducting exploration and mining activities.

I commend the bill to the House.