Woodside leaves oil rig for taxpayers to clean up; is Exxon next in the Bass Strait?

By *Callum Foote* in Michael West Media, 4 November 2020

Thanks Woodside. Taxpayers are on the hook for the $200 million-plus clean-up of an ageing oil production platform moored in the Timor Sea. Is Exxon next to shirk its oil rig clean up in the Bass Strait? Callum Foote reports.

Thanks Woodside. Taxpayers are on the hook for the $200 million-plus clean-up of an ageing oil production platform moored in the Timor Sea partly because of a loophole in government regulations that are meant to ensure companies are financially sound when they buy oil field titles. Taxpayers have already stumped up more than $50 million to keep the platform safe.

Because this loophole has still not been closed, taxpayers are potentially on the hook for a $4.6 billion clean-up fee for Exxon's offshore platforms and installations in the Bass Strait.

It's just a matter of selling your assets to a tiny company that then, suddenly, goes into liquidation. For tax cheat Exxon, which has racked up $33 billion in income in recent years without paying a brass razoo in corporate income tax, this would be unacceptable.

That mining companies and regulators consistently underestimate the cost of rehabilitating open-cut mines, leaving taxpayers on the hook, has been known about for years.

However, the same thing could happen with offshore petroleum platforms around Australia as they gradually wind up, unless the regulations change. Oil and gas giants could sneak out of paying for the damage their operations have caused, leaving the taxpayer with enormous clean up fees and stranded assets strewn in our oceans.

Loophole identified

In 2016, Northern Oil and Gas Australia (NOGA) agreed to buy the Laminaria and Corallina (LamCor) oil fields from Woodside and Talisman, which held the titles to the oil fields. NOGA purchased 100% of Talisman's shares, thus acquiring the floating petroleum processing and storage facility Northern Endeavour and Woodside's interest in the oil field.

However, the title for the oil fields did not technically change hands. This meant that the National Offshore Petroleum Titles Administrator, the regulator in charge of making sure oil-field titles are bought and sold by legitimate, solidly operated companies, did not conduct an analysis on the financial and technical capacity of NOGA. NOGA was later described as having "limited background in the offshore industry … significantly under-capitalised and a fragile business model".

NOGA went into liquidation in February with debts of more than $165 million. It left the Federal Government with the responsibility for keeping the Northern Endeavour safe and the decommissioning bill, estimated at up to $230 million.

It is unknown whether Woodside or NOGA knew at the time that they had used a loophole in the regulation.

Late last year, under questioning by Independent senator Rex Patrick, the head of the title's administrator said that the loophole had still not been closed.

The failure to close this loophole raises significant concerns about Exxon and its 23-strong fleet of offshore platforms and installations in the Bass Strait. If the Northern Endeavour situation were to be repeated with Exxon, Australian taxpayers are potentially up for a $4.6 billion clean-up fee.

The problem with Northern Endeavour extends beyond the title's administrator's failure to properly audit the company before taking on the oilfield.

The National Offshore Petroleum Safety and Environmental Management Authority (NOPSEMA) has been accused of enforcing stringent black letter regulations and refusing to advise NOGA how to begin operations again.

A report commissioned by Resources Minister Keith Pitt, known as the Walker Report, is quoted as saying "in a little over three years NOPSEMA used the full breadth of its regulatory powers, with two Prohibition Notices, three Improvement Notices, four General Directions and four requests to revise permissioning documents".

As a result of the numerous notices, the Northern Endeavour was forced to stop production, which had serious implications for its owner's cash flows. Ultimately, Northern Oil and Gas Australia was forced into administration in September last year.

Taxpayers keep paying

In February this year, Upstream Production Solutions was contracted by the government to keep the Northern Endeavour in 'lighthouse mode', which means minimum crew levels required for safe operation and keeping it secure. UPS had already been undertaking this role for NOGA.

However, taxpayers are stumping up $1.5 million a week for the UPS contract, equivalent to almost $71 million a year, to keep that minimal crew, understood to be between 10 and 12 people, offshore in the Timor Sea, according to a report by Boiling Cold.

Compare that to UPS's revenue for the 12 months to June 2019 of just a marginally higher $88.4 million. Yet in that year UPS operated a fully crewed Northern Endeavour while it was producing oil, maintained 3500 gas wells in Queensland, and provided operations and maintenance support to Mitsui, ENI and Triangle Energy for onshore and offshore fields in WA and the NT.

When Boiling Cold asked why it was charging so much to operate the Northern Endeavour in lighthouse mode, UPS reportedly did not respond.

Northern Endeavour has been in lighthouse mode for almost a year, and Minister for Recourses Keith Pitt still has no plan for how to resolve the issue.

Nor does Stuart Smith, chief executive of the management authority, who in Senate estimates last year downplayed his agency's role in the Northern Endeavour disaster.

When asked by Senator Patrick: "How do you deal with the shutdown of the company and the safe shutdown of the facility?" Smith responded, with perfect bureaucratic logic, that his authority would "take action against the title holder", apparently ignorant of the fact that it had just put the title holder out of business.

As for Woodside's responsibility for cleaning up the mess? The company had planned to decommission the Northern Endeavour in mid-2015, meaning it would be up for the full decommissioning liability of up to $230 million, but two months later agreed to pay Northern Oil and Gas Australia $24 million to take over the asset over, along with responsibility for decommissioning. Senator Patrick has said that Woodside could not in good faith claim it did not bear some responsibility for the failure of NOGA.

With the international fossil fuel market collapsing, other multinationals with ageing offshore petroleum processing platforms and vessels are surely looking for ways out of the billions in remediation liabilities they have accrued.

Callum Foote is our Revolving Doors editor exposing the links between the highest level of business and government. These links provide well-resourced private interests with significant influence over Australia's policymaking process. Callum has studied the impact of corporate influence over policy decisions and the impact this has for popular interests. He believes that the more awareness this phenomenon receives the more accountable our representatives will be.