



2013 Policy Priorities

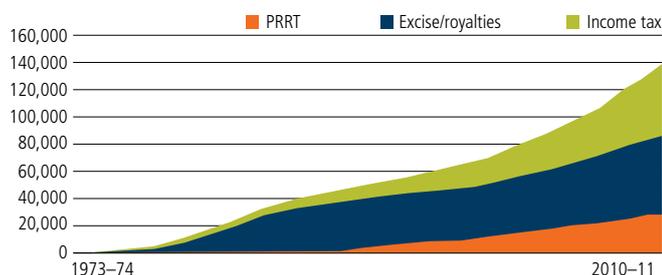
Oil and gas: a major contributor to Australia's economic prosperity

Almost \$200 billion is currently being invested in oil and gas projects including seven major LNG projects. According to economic modelling commissioned by APPEA and conducted by Deloitte Access Economics, this will increase Australian GDP by up to 2.2 per cent a year and require a construction workforce peaking at over 100,000 full-time equivalent jobs.

By 2025, the construction and operation of these projects will add more than \$260 billion (in net present value [NPV] terms) to Australian GDP and contribute between \$6.3 billion and \$7 billion a year in taxation revenue (DAE 2012¹). Nearly \$150 billion in taxes has been paid by the industry since the mid-1970s.

Oil and gas currently accounts for more than 35 per cent of all business investment across the Australian economy.

Cumulative taxation payments by the oil and gas industry 1973-74 to 2010-11 (\$ million)



International competitiveness: the major challenge

The major challenge to the industry's continued growth is maintaining Australia's international competitiveness in the face of growing global competition. A high-cost local environment and the emergence of new LNG competitors in East Africa, North America and elsewhere will make it much harder to win market share and attract investment.

The industry and governments must do everything possible to ensure projects under construction commence production in a timely manner.

Some impacts on current and future investment, such as the high Australian dollar, are beyond the ability of industry to influence. However, other key challenges must be addressed. In particular, the industry and its suppliers need to work harder at constraining cost growth and to meeting skilled labour requirements. Industry is investing in technology and reducing costs.

But there are critical policy areas that require genuine reform. Five major policy priorities are clear:

- The need for fiscal stability
- The need for market-based energy policy
- Maintaining industry access to resources
- Red tape and green tape reduction
- Developing viable labour markets that encourage mobility, flexibility and productivity.

¹ Deloitte Access Economics 2012, Advancing Australia: Harnessing our Comparative Energy Advantage <www.appea.com.au>

1 The need for fiscal stability

To maximise its oil and gas production, Australia needs a stable, predictable and competitive taxation regime that will create a fiscal framework that encourages exploration and development investments. Long-term projects (30–40 years duration) need long-term stability.

Yet over the past five years the industry has been confronted with a range of disruptive changes to the taxation regime that affect company and resources taxation settings, including:

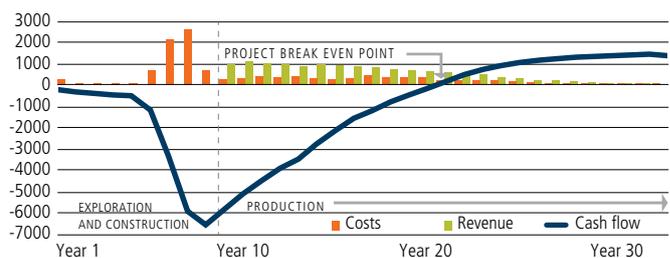
- the imposition of excise on condensate production
- limiting the application of the R&D tax arrangements
- extending the scope of the PRRT regime
- reducing the scope of the FBT exemptions for workers
- the introduction of a carbon tax not borne by international competitors
- the introduction of cash bidding for certain exploration acreage.

These changes have increased the taxation burden faced by the industry and the costs of compliance.

In 2011 and 2012, further uncertainty confronted the industry when the government's Business Tax Working Group (BTWG) undertook a review of deduction provisions (such as capital depreciation and exploration expenditure) to fund a company tax rate cut. The BTWG correctly identified the dangers of changing these provisions and the impact they would have on expected returns from projects with long lead times before production.

Managing fiscal uncertainty is within the control of government. It represents the major risk to the success of current projects and the development of future projects.

Costs, revenue and cash flow over project lifecycle (\$ million)



2 The need for market-based energy policy

In all sectors of the economy—not just oil and gas—maintaining access to open and competitive markets is in Australia's best interest.

Australia's gas industry is delivering substantial, economy-wide benefits in terms of investment, jobs, and regional development. But for this benefit to be sustained, governments must resist calls for policy interventions that force non-commercial outcomes.

The 2012 Energy White Paper established a solid policy framework to guide the sector's long-term development. The White Paper clearly articulates the important role that Australian natural gas will play in delivering economic growth and energy security. It also recognises the critical importance of market-based energy policies and sends an important signal to investors in its rejection of domestic gas reservation policies and other such industry protection measures.

Arguments for domestic gas reservation are highly dangerous, short-sighted and self-interested. Gas reservation policies actually impair local gas supply and affordability, rather than improve it. Laws that dictate where and how gas can be sold invariably deter the very investment needed to develop Australia's abundant gas reserves.

LNG projects, to which Australia now looks to underpin the national economy for decades to come, are complex, extremely costly and require a decades-long horizon.

Australia's LNG industry is a source of comparative advantage that should be harnessed, not hindered. Just as Australia's long-term national interest is served by maintaining access to open and competitive markets for coal, wheat, and iron ore, the same is true for gas.



3 Maintaining industry access to resources

The oil and gas industry is committed to continuously striving to improve health, safety and environmental performance.

People and the environment are protected through the responsible management of operations and their impacts, and by incorporating scientifically based risk management strategies. The industry supports stable, predictable, robust regulation of its activities based on sound scientific principles and assessment.

Continued development of the industry relies on continued access to oil and gas resources onshore and offshore. Any restriction on access must be consistent with an evidence-based, scientifically driven policy approach.

It's worth considering that Queensland's natural coal seam gas industry now employs about 30,000 people, has signed more than 3700 landholder agreements and has so far contributed more than \$100 million to community projects and causes.

Yet in NSW, where arbitrary government regulation continues to send the signal that NSW is closed for business, our industry employs fewer than 300 people, has signed just 285 agreements with landholders, and has contributed \$750,000 to community projects.

Policies that undermine the development of energy projects and curtail energy production impose costs on the Australian community, in jobs, in economic growth and ultimately in higher energy bills.

4 Red tape and green tape reduction

Australia's oil and gas industry endures duplicative and inefficient regulatory approvals processes. Much inefficiency exists in the over-laps between federal and state government regimes.

However, there is also far too much duplication and inefficiency between federal government departments and federal agencies. The overlaps and excessive and inconsistent requirements cause unnecessary project delays and increased costs without additional environmental benefit.

Australian governments have identified reforming excessive legislation and red tape as an important issue. The 2012 Energy White Paper says streamlining and addressing barriers in the approval process for major energy projects is essential for strengthening Australia's competitiveness and productivity.

The Productivity Commission in 2009 found that duplication, overlap and inconsistent administration of petroleum and pipeline laws imposed significant unnecessary burdens on the sector.

Four years later there has been some progress with the establishment of an offshore regulator (NOPSEMA) for environmental and safety issues. Yet the federal Environment Department (SEWPC) still regulates the industry under the EPBC Act². The result is that licence conditions approved by the responsible Environment Minister (under the EPBC Act) significantly duplicate the stringent requirements of the Environment Plan regime administered by NOPSEMA (under the OPGGS Act³).

The accompanying table shows the duplication of approvals required from two different federal agencies for a company undertaking an offshore field development.

OPGGS ACT: REGULATORY APPROVAL	EPBC: MINISTER'S APPROVAL
Drilling plans <ul style="list-style-type: none"> ■ drilling fluid ■ cuttings and disposal ■ fuel handling ■ ballast water management ■ offshore construction ■ design, disturbance, etc 	Drilling plans <ul style="list-style-type: none"> ■ drilling fluid ■ cuttings and disposal ■ fuel handling ■ ballast water management ■ offshore construction ■ design, disturbance, etc
Ballast water management	Ballast water management
Develop an oil spill contingency plan <ul style="list-style-type: none"> ■ trajectory modelling ■ containment, response, etc ■ sensitive area identification ■ training of staff in response measures ■ reporting of incidents to regulator 	Develop an oil spill contingency plan <ul style="list-style-type: none"> ■ trajectory modelling ■ containment, response, etc ■ sensitive area identification ■ training of staff in response measures ■ reporting of incidents to department ■ reporting of incidents to regulator
Baseline (pre-impact) environmental studies, as relevant, to provide sufficient and accurate environmental data to allow the operator to detect environmental impacts attributable to an oil spill, separate from natural environmental changes that may be occurring	Develop a post-incident operational and scientific monitoring program <ul style="list-style-type: none"> ■ triggers (spill volume) ■ pre-impact baseline studies required ■ strategy to implement plans, etc
Decommissioning plan prior to decommissioning the facility or any subsea equipment	Decommissioning plan prior to decommissioning the facility or any subsea equipment
Accurate records and reporting to the regulator	Accurate records and reporting to the department
Revision on request by the regulator	Minister may, at any time, request specific revisions to any: plans, reports, strategies, programs or systems currently in place

2 Environmental Protection and Biodiversity Conservation Act

3 Offshore Petroleum & Greenhouse Gas Storage Act

4 Red tape and green tape reduction *continued*

On average, around 40 different seismic survey operations are conducted offshore Australia each year. All are subject to the real prospect of duplication and conflicting decisions in the environmental planning process.

And in offshore Western Australia, up to five different state and federal bodies are involved in reviewing and consulting on environmental requirements regarding oil spill contingency planning.

A key step can be taken by the federal government on its own through dealing with the twin impacts of its EPBC and OPGGS Acts. Accrediting NOPSEMA to approve projects under the EPBC Act would be a big step in improving regulatory inefficiency.

The costs associated with this regulatory burden are increasing rapidly and new requirements are constraining industry activity.

There is significant opportunity to reduce red and green tape and streamline the duplicative and overlapping regulatory processes that currently increase costs and cause delays without producing better environmental outcomes.

The oil and gas industry is truly global in nature and competes for a limited pool of international investment capital. Funding lost from the domestic oil and gas industry will not be spent in other parts of the Australian economy—it will be redirected overseas. While the industry has committed to a number of large projects over the last decade, the next generation of investments (and extensions to existing and committed projects) is depends heavily on an efficient, coordinated and transparent regulatory framework.

5 Viable labour markets: mobility, flexibility, productivity

Developing the skilled workforce and the local industry supply capability needed to build and operate the oil and gas projects now under construction is a major challenge.

Australia must reverse its recent decline in labour productivity growth. Productive time achieved ('time on tools') is consistently lower than in other countries for several reasons, including regulatory rigidities and shortages of skilled first-line supervisors and engineers.

Overall productivity in the broader resources sector will improve as projects now under construction start production. But low rates of productivity growth in the crucial construction sector will not automatically recover and must be reformed. High labour costs and lower labour productivity mean construction

work in Australia can cost up to five times than on the US Gulf Coast. Construction costs per installed tonne of capacity are among the world's highest.

Policies must encourage:

- reforming labour market regulation to encourage greater flexibility and more productive employer-employee relationships
- continued access to overseas labour markets for shortages of skilled workers (including through 457 visas)
- greater mobility of workers to regional areas of Australia where demand is greatest (including FIFO arrangements, particularly through the construction period)
- investment in training.

Further phases of development will deliver additional benefits

Further growth and economic benefits could come from the pipeline of future oil and gas investment yet to be committed.

This includes brownfields expansions and new field developments for projects currently in operation or under construction as well as potential investment of at least another \$100 billion in new greenfields projects. Oil and gas has a central role to play in the nation's prosperity.



Summary

Australia needs a viable oil and gas industry to contribute to its long-term economic prosperity. Vital policy action taken now — on tax, market-oriented policies, access to resources and reforming red and green tape — will improve the industry's international competitiveness and help secure that future.