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Multi-speed economy analysis reveals multiple fast lanes

The first comprehensive analysis of the largest oil and gas investment boom on record reveals the industry's $185 billion worth of new projects is delivering a major economic boost across Australia.

Commissioned by the Australian Petroleum Production & Exploration Association (APPEA) and produced by Deloitte Access Economics, the report – *Advancing Australia: Harnessing our comparative energy advantage* – analyses the economy-wide effect of the industry's expansion and outlines the policy framework needed to secure long-term benefits for all Australians.

APPEA Chief Executive David Byers said: "More than half of the liquefied natural gas (LNG) projects now under construction globally are Australian and the economic consequences of this are overwhelmingly positive for Australia.

"This report demonstrates how Australia's gas industry has become a crucial driver of national prosperity. And rather than having dire impacts upon other industries, or being responsible for the 'hollowing out' of other sectors, the report shows the benefits of this enormous LNG investment flow far and wide."

The oil and gas industry's production profile directly and indirectly represents around 2.0 per cent of current GDP, with value added of about $28.3 billion in 2010-11 (based on total sales of $29.7 billion). Over the period to 2025, the sector's economic contribution to the national economy will be driven by the rapid growth in installed capacity and is projected to double to around $65 billion in 2020 and $60 billion in 2025 (see Table below). In 2020, when production (on the basis of current and forthcoming capacity) and prices are expected to peak, the industry's total economic contribution is projected to be around 3.5 per cent of the national economy.

To put this in perspective, the whole of the primary industry sector in Australia (agriculture, forestry, fishing and resources) accounts for 11.4 per cent Gross Value Added (GVA) to the Australian economy, meaning that in 2020 almost one-third of this GVA will come from oil and gas.

Forward economic contribution*

	NPV	2011	2020	2025
Oil and gas				
Value added ($b)	420.0	28.3	64.7	60.1
Direct value added ($b)	356.7	24.1	55.0	51.5
Indirect value added ($b)	63.3	4.3	9.8	9.1
Direct value added, share of GDP (%)		1.7	2.9	2.3
Total value added, share of GDP (%)		2.0	3.5	2.7
Exploration				
Value added ($b)	9.1	1.1	0.8	1.1
Total				
Value added ($b)	429.1	29.4	65.5	61.2
Share of GDP (%)		2.1	3.5	2.8

* Deloitte Access Economics will also be undertaking modelling over a longer timeframe (to 2035) to incorporate the 20-plus years of production from these projects, the NPV of value-added from the industry will be even higher. This additional modelling will be released in coming weeks.

The $185 billion worth of oil and gas projects (both under construction and at advanced stages of planning and approval) will have an enormous influence on economic activity, Mr Byers said.

“Separately, they represent some of the biggest projects ever undertaken in Australia; collectively, they account for around 35.4 per cent of all business investment. If all oil and gas investments are realised, they will comprise over 64 per cent of all committed investment in Australia.

“To put the size of these projects into context, in today’s dollars the cost of the Snowy Mountain Scheme would be around $8 billion.

“By comparison, all seven LNG projects currently under development are larger than this iconic project. Indeed, the Gorgon LNG project is five times as large.”

Mr Byers said: “The continued expansion of Australia’s oil and gas industry represents incredible opportunities to all Australians.

“We should be capitalising on these opportunities and maximising growth in living standards and employment by efficiently allocating resources.

While the economic advancement in our region is overwhelmingly positive for Australia, playing to our comparative advantages as a secure and reliable energy exporter, the ongoing development of the oil and gas sector should not be taken for granted.

“The report points to the need for greater attention on measures and settings that facilitate effective reallocation of resources from lower performing capital-intensive industries — such as low value-added manufacturing segments — to the resource industry to raise national productivity. Longer term economic gains are largely determined by the extent to which labour and capital inputs can produce more highly valued output — this includes harnessing Australia’s comparative advantages such as the extraction of energy resources.

“Accessing skilled labour is essential for the oil and gas industry. Given its rapid expansion trajectory and largely concurrent project scheduling, the industry must source and place workers to maintain the pace of development. Continued access to overseas labour markets through mechanisms such as Enterprise Migration Agreements is vital.

“Rising development costs and risks of unwarranted regulatory interference could potentially undermine the economic payoffs from the investment boom and lead to long-term supply contracts being lost to other resource exporters.

“Being an efficient, low-risk and cost-competitive resources supplier provides a greater market ‘buffer’ and reinforces Australia’s reputation as a preferred producer.”

Government policy must not unduly contribute to the overall development cost and risk profile. There are three areas where there is scope to create longer-term confidence and reduce the regulatory burden:

- Stable, predictable taxation policy that provides confidence for long-term investors following a period of continual change that includes: extension of the petroleum resources rent tax; introduction of the condensate excise; changes to fuel tax; and the imposition of a carbon tax.
- Environmental approvals – key aspects of the legislative framework could be improved to reduce regulatory burdens and address the need for timeliness in project delivery.
- State and Commonwealth Government policies facilitating local content for major project development should not inhibit the industry's ability to source the most competitive global suppliers.

"It most certainly does not mean intervening to resist this inevitable restructure or policies that add to the cost burdens facing industry and slow the growth and benefit flowing across the country."

The report is available at www.appea.com.au/policy/submissions-a-reports/2012

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DELOITTE ACCESS ECONOMICS, *ADVANCING AUSTRALIA: HARNESSING OUR COMPARATIVE ENERGY ADVANTAGE:* KEY POINTS

The report finds:

- current oil and gas investment accounts for more than **one-third of all business investment in Australia.** If all oil and gas investments are realised, they will comprise nearly two-thirds of all committed investment in Australia;
- over the period to 2020, the sector's **national economic contribution will double** to around $65 billion per annum;
- in the years 2012-2025, the **industry will pay $93.6 billion** (in net present value (NPV) terms) in corporate and production taxes; and
- over the period 2009 to 2017, **projects will spend $23 billion per year** (on average) in capital outlays, or about $210 billion in total; and
- in 2012 oil and gas sector investment and construction activity will **increase national employment by 1.0%** and generate 103,000 (full time equivalent, FTE) jobs nationally.