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Oil and gas sector benefits to flow beyond construction but spending remains under threat

While the Australian oil and gas sector is in an unprecedented phase of investment, benefits could flow well beyond project construction to deliver a substantial and long-lasting boost to national income and tax revenue, the Australian Petroleum Production & Exploration Association (APPEA) said today.

Deloitte Access Economics **supplementary analysis** to the report ***Advancing Australia – Harnessing our comparative advantage***, sets out the economic impacts of the industry over a longer timeframe to the year 2035.

The analysis focuses on three oil and gas investment and production scenarios. These range from a 'central development scenario' that incorporates all oil and gas projects already committed to or highly likely to proceed, to a 'high development scenario' that includes all committed and proposed projects (including those that may be some time away from a final investment decision).

APPEA Chief Executive David Byers said: "The flow on benefits of this industry to jobs growth, wages and the economy is enormous but will only be achieved if we get the policy settings right."

The analysis shows that under the higher development scenario GDP would increase by about $455 billion in NPV terms over the period from 2012-2035 compared to a central development scenario of an increase of $357 billion over the same period. The study shows the massive positive economic impact as the industry moves through the construction phase to the production phase.

Corporate and production taxes (including royalties) of $8.9 billion paid by the industry in 2010-11 would rise to $18.9 billion in 2035 under a high development scenario. Under this scenario, taxation revenues in net present value (NPV) terms would rise to $167 billion over the period from 2012 to 2035 (compared to $134 billion under the central development scenario).

Mr Byers said: "These sorts of benefits can't be achieved if project development costs continue to rise and long-term contracts are lost to other petroleum-exporting nations."

"This analysis reinforces the need for policy makers to support, rather than hinder, structural change.

"The high cost of doing business in Australia at a time of increased international competition is making it much harder for Australia to win market share and attract investment.

"Only last week the Council of Australian Governments (COAG) deferred work on streamlining project environmental assessments and approvals – one of the critical policy priorities affecting timely delivery of major oil and gas projects.

A further report released by APPEA today shows more than $29 billion has been spent with Australian-based businesses as part of a current wave of investment underway in offshore oil and gas projects.

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This report – ***The wider contribution to Australia of the oil and gas industry: a selection of case studies*** – highlights how resource companies are using Australian-based expertise to advance their projects.

The North West Shelf Venture is one of the case studies included in this work. This project is Australia's largest operating oil and gas resource development. In 2011, it accounted for more than 40 per cent of Australia's oil and gas production and 65 per cent of WA's domestic gas supply. Operating for more than 27 years, it has a solid track record of maximising local content, with about $600 million spent with Australian-based businesses in 2011.

Mr Byers said: "Massive spending through local contracts is expected during a project's construction phase and those benefits can continue for decades as they become operational.

"For example, the Gorgon project alone is expected to spend $33 billion on local goods and services over a 30-year period, but such spending is in jeopardy if the costs of doing business in Australia continue to skyrocket."

Mr Byers said oil and gas companies working on nine projects have so far committed $560 million to social investment programs in coming years for health, education, town amenities, sport and childcare initiatives.

Programs offered by the producers range widely, from country-wide to grass-roots support. Examples include Woodside's partnership with Ngala, a provider of early childhood services, to offer proactive parenting education, resources and support to families living in remote and rural communities, and Chevron's Community Spirit Grants program to fund local initiatives in the towns of Exmouth, Onslow, Karratha and Dampier.

A further $145 million has been pledged for research projects, highlighting the industry's support of rigorous scientific endeavour.

Apache's case study reveals a considerable amount of support for marine and nature research, including studies of whale shark activity.

The Deloitte Access Economics supplementary analysis and *The wider contribution to Australia of the oil and gas industry* were launched today at the APPEA-UWA Seminar: The Economics of Oil and Gas in Western Australia – Benefits to the State and key policy challenges. These reports can be downloaded from the APPEA website at www.appea.com.au/policy/submissions-a-reports/2012

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