A vital voice

TOGY talks to

Belinda ROBINSON, Chief Executive
AUSTRALIAN PETROLEUM PRODUCTION AND EXPLORATION ASSOCIATION

Australia's largest organisation dedicated to the oil and gas industry represents a membership that collectively produces 98 percent of the country's oil and gas output. APPEA hosts the industry's must-attend annual energy conference and is a vital voice to Australian lawmakers on behalf of its members' competitive interests.

THE OIL & GAS YEAR: *How does the Australian Petroleum Production and Exploration Association (APPEA) represent the oil and gas industries?*

BELINDA ROBINSON: The APPEA represents the upstream oil and gas industry. The organisation has approximately 250 members, and collectively our members produce 98 percent of Australia's oil and gas output. 2010 will be a very significant year for APPEA because it is the 50th anniversary of the organisation. Many people in the industry are familiar with a very substantial annual conference that we run that typically attracts between 1,600 and 2,200 people from Australia and around the world who are interested in the upstream oil and gas in Australia.

TOGY: *With a slew of major LNG projects under contract or consideration, Australia is poised to produce as much as 50 million tonnes of LNG by 2015. With this in mind, do you think Australia is slated to become the energy leader of the Asia-Pacific region?*

BR: If the full potential of the industry is realised Australia will be an energy leader in the Asia-Pacific region and, in fact, if all of the projects that are currently in the pipelines are realised, that will make Australia the world's number two producer of LNG behind Qatar. There are A$220 billion ($164.56 billion) of LNG and gas projects underway, which could bring 52,000 jobs to Australia as well as significant revenue for the treasury.

TOGY: *For a country of 21 million people, this is a considerable level of industrial activity. What role does the APPEA aim to play while these projects are planned and put into operation?*

BR: We focus on what might stand in the way of what we could be as an LNG producer, drawing those things to the government's attention and working with the government. Ultimately, of course, the extent to which those projects go forward will fundamentally depend on the economics for both projects and the economics of LNG projects are very fragile. Australia is one of the highest cost destinations in the world supplying the Asia-Pacific region. We are very conscious of the economics of these massive projects and what it will take to maximise the potential.

TOGY: *Is Australia still a prospective market for onshore and offshore oil exploration?*

BR: Only a fraction of our members are involved in the LNG sector. There is still a great deal of interest in pursuing business models based on onshore exploration and production and despite the maturity of the onshore basins discoveries are still being made. There are companies in Australia that are absolutely confident that there is more oil to be found. Exploration programmes have been curtailed in the global economic downturn but the potential for discoveries remains.

> *"A$220 billion ($164.56 billion) of LNG and gas projects could bring 52,000 jobs to Australia as well as significant revenue for the treasury."*

TOGY: *How can the energy sector overcome the talent deficit the industry is facing and how does your organisation address this issue?*

BR: That is a big question. The demographic is ageing but my sense is that we are not quite in the same boat as some other countries in that we have had quite substantial immigration of skilled engineers and geoscientists, so that when we look around the audience now at the conference, the demographic is much younger than you might expect. With that said, filling up to 52,000 jobs is an enormous challenge. But we are also looking at ways of how we try and grow the skills pool. Wages and conditions are better in our industry than in many others.

We saw a downturn in the number of young people choosing to study geology and engineering but we are starting to see a return due to excitement in the industry. There will be a lag before we see graduates coming onto the market and so there is still a question mark over whether the schools will be producing enough people.

In 2008 we started a series of pre-employment programmes for those with an interest in our industry to come from under-represented parts of the labour sector. The industry is still very male-dominated so we had a range of courses for people from indigenous communities and for women, as well as the ageing population who could be seeking the skills to work our industry. We toured the country educating school careers advisors on industry opportunities. We are part of a new initiative for an industry-related campus for postgraduate work with a focus on the work place, with co-operation from a UK statutory institution. We are working hard with them in to try to develop a very strategic approach to identify how we intend to have the 52,000 jobs met. There is a lot of work still to be done and I certainly do not underestimate the challenge.

TOGY: *In May 2009, the federal government delayed the introduction of an emissions trading scheme that many companies said would create obstacles for the industry, especially for LNG exports. Do you see this delay as a sign that government understands its commercial responsibility?*

BR: At the outset the one-year delay makes very little difference to us because most of the industry we are talking about will not be producing within that timeframe. Politically, it was always going to be difficult to introduce a scheme that imposes a cost on the economy. The government was also responding this way because it was going to be difficult putting all the design work together that was going to be necessary to have a scheme started in 2010. For those two reasons the government decided to move the scheme back a year, but ultimately the issues are much more significant to us than a delay.

TOGY: *What are the main points of concern presented by the emissions trading scheme?*

BR: The industry supports a carbon pricing mechanism to increase the demand for natural gas because generating electricity with natural gas produces 50-70 percent fewer greenhouse emissions than coal. So we have no problem with the domestic side of the proposal. The problem comes with LNG and other export products because the rest of the world has not agreed to a carbon price, which puts Australia's LNG on an unequal footing. We are up against Qatar, Algeria, Nigeria and others who are selling to the same market without a carbon price. A market-based measure is a good principle but if it is not universally applied it will distort the market.

The May 2009 APPEA conference was attended by 1,600 industry delegates from Australia and overseas

TOGY: *How can the scheme's design be altered to alleviate this potential problem?*

BR: The government has gone partway there by allocating permits to cover emissions while our competitors don't have a price on carbon. So it is a transitional measure to ensure there is no additional cost on the Australian LNG industry that is not shared by our competitors. At the moment

> *"The industry supports a carbon pricing mechanism to increase the demand for natural gas."*

the scheme anticipates up to 60 percent of permits to be allocated to the LNG sector. The devil is in the detail, how will that 60 percent be allocated and on what basis? For example, it does not include the entire production chain and there are still questions to be answered so we are working hard to analyse that now.

TOGY: *How has Australia's coal seam gas boom affected the way you represent your members?*

BR: We are a national body with headquarters in the capital, Canberra. In recognition of the coal seam gas juggernaut in Queensland, we have recently opened an office there as well. We are very heavily engaged in all of the challenges concerning this industry, which has grown from almost nothing to representing 18 percent of the natural gas supply on the east coast. Australia could become the first destination for producing LNG from coal seam gas and we have approximately seven projects on the drawing board. This will be very challenging from a regulatory perspective because the regulatory regime developed from coal and minerals in Queensland now has to evolve as quickly as possible to take into account this burgeoning industry. As a demonstration of how far the industry has come, there was an expenditure of approximately A$22 billion ($16.46 billion) just in accessing resources and planning the way for LNG projects.

One of the points that has been lost in the emissions trading scheme is that because natural gas represents a much cleaner form of electricity generation than some of the alternatives. There is a certain perversity in the design of an emission trading scheme that constrains the growth of the very sector that would enable the world to move towards a less emissions-intensive future. That is a paradox that we have found very difficult to understand and that we continually try to bring to the attention of lawmakers.

TOGY: *What will be some other challenges facing the industry over the next five years, and what can APPEA do to address them?*

BR: One in challenge particular will be the cost profile of these projects. The economics of these very large projects are very fragile and Australia is the highest cost destination in the world supplying LNG to the Asia-Pacific region. Now there is not much the association can do in terms of that cost profile but what we can do is to try and ensure that by working with governments that public policy does not result in an additional unnecessary cost burden on the industry.

Also, we are able work with the state and federal governments to ensure that the fiscal regime is competitive. We are very active on the issue of capital depreciation rates particularly for large gas projects. Our focus is very much on recognising the cost profile as something in the industry and within the domain of the industry but certainly we can work with government to ensure that public policy offsets some of the country's cost disadvantages.

Another issue is the regulation and approval processes. Australia is a federation, we have a federal government and a national government, and we also have a range of state governments. On top of that we also have a joint commonwealth state regulatory regime for offshore areas. Therefore we have three layers of administration that we are required to deal with. We frequently have regulatory regimes replicated three times in slightly different ways that our project proponents are required to deal with.

"There was an expenditure of approximately A$22 billion ($16.46 billion) just in accessing resources and planning the way for LNG projects."

Recently our economic agency, which is a government body called the Productivity Commission, released a report on the regulatory burden for the country's upstream oil and gas industry. They made a number of recommendations for what needed to be done. In essence they agreed that the regulatory and approval regime in Australia was far too complex with too much duplication, too inefficient and that cutting red tape by 50 percent was not an unrealistic aspiration and expectation. So we are very engaged with government on how we can now move forward on responding to some of those recommendations to expect to streamline our regulatory and approval processes in this country and in particular remove duplication of accrediting processes from one jurisdiction to another. ■

The APPEA is the legislative and administrative representative of oil and gas explorers and producers throughout the country