

**AOG**

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# Executive Summary

After three and half years of significant downturn in the global oil and gas industry, many international analysts are now forecasting a positive turnaround in sentiment and spending as we enter 2018.

After hitting a February 2016 low of US\$27 per barrel, oil prices currently sit at around US\$70 per barrel, rising significantly on the back of price control measures introduced and maintained by OPEC, Russia and other oil producing countries – along with improved market conditions.

The Australian oil and gas industry was particularly hard hit in the period following the initial oil price collapse in June 2014 – driven by a ‘perfect storm’ of a strong reaction to the high cost of doing business in the country, coupled with the winding down of the nation’s biggest ever resource industry construction “boom” – the development of a string of world class LNG projects on the country’s west and east coasts.

It was with this background scenario that the Australasian Oil & Gas Exhibition & Conference (AOG), elected to undertake its inaugural ‘Oil & Gas Industry Confidence Survey’.

The survey was commissioned to obtain a snapshot of the current ‘state-of-mind’ of industry participants to be shared with industry and government to assist in painting an accurate indication of the sentiment towards recovery and growth within the oil and gas industry.

Industry specialists were approached to participate in the survey, with hundreds of industry and government representatives taking part during the survey period from December 2017 to January 2018.

The respondents represented all sectors of the industry from E&P companies to a full spectrum of service and supply organisations and government.

Questions were framed to examine opinions on growth confidence within the industry and organisations, while also examining key issues affecting that confidence moving forward.





# Overview

There is a clear view that a turnaround in industry confidence is occurring, with the majority of the respondents suggesting that the local industry is in the early stages of recovery, although there was a strong perception that the real strength of the turnaround will be more noticeable in the mid-term (2 to 5 years).

## Industry and business confidence

Respondents generally expressed greater confidence in the near-term success of their own businesses, as opposed to their view on the industry as a whole.

More than half of the participants registered a vote of confidence in industry growth over the next two years, while almost three quarters of respondents were confident their organisation would grow over the same period.

On a sector basis, those involved in manufacturing were the most confident in both industry and organisational growth. On the other end of the spectrum, just under half of respondents believe the “supply chain” was in the early stages of recovery.

## Profit and spending growth

In a strong sign of their confidence, a large percentage of individual businesses believed their company would achieve profit targets over the next 12 months, while 66% said they were confident they would increase OPEX in that period. Slightly less than that number of respondents also said they were confident they would increase CAPEX in that period and a similar number said they were confident they would increase employee numbers in that period.

Those who were less confident pointed to the growing use of renewable energy as major factor affecting growth potential.

Interestingly, the participants identified: demand; oil price; and innovation and technology, in that order, as the top three drivers of growth over the next 12 months for the oil and gas industry.

## The future

While the majority of respondents believed that the service and supply sector was doing “ok”, less than half felt that the key future business generation areas of “field development” and “exploration” were in a similarly position.

There is also a general feeling that companies will not be increasing staff numbers significantly, but will be working hard to keep their teams in place. Although it was noted that there are some good quality graduates coming through the education and training system and they could be hired at a cheaper rate than experienced staff.

While oil price concerns have slipped to just 11% as a barrier to overall industry growth, most respondents said high costs, particularly in Australia were a barrier.

A significant number of respondents also named ‘red tape’ as a potential barrier to further growth opportunities for the oil and gas industry in Australia.

There was also significant concern raised by specifically affected industry groups over the growing number of bans on onshore exploration and development across the country.

Respondents named increased collaboration as a top priority to increase industry growth over the short term, followed by investment in technology and innovation; investment in R&D and increasing employment.

While the Australian oil and gas market is following the global trend in registering an increasing confidence that the industry is emerging from the turmoil of the recent major downturn, the local industry has downplayed the importance of oil prices in its future growth forecasts, and focused its attention on local issues such as high local costs, red tape and the shutdown of activities in large onshore areas across the country.

In addition, while there is very strong evidence that the local industry is rebounding from the lows of the previous three and a half years, there are also indications from a majority of participants that the level of growth will be slow in the short term before beginning to accelerate in the mid-term.

## Industry and Business Confidence

After the lengthy oil price decline and the related loss in industry confidence, the majority of survey respondents indicated that things have started to turn around for both the petroleum sector and their own organisations.

More than half were confident there will be industry growth over the next two years. Importantly, almost 90% of the participants were confident there will be industry growth between the next two to five years. Nearly a quarter of the respondents were “very confident” there will be industry growth over in five-plus years.

Interestingly, the growth forecast for the oil and gas industry and individual businesses for the mid-term was very similar at 87% and 86% respectively.

The manufacturing sector proved to be the most upbeat about the current and future success of the local oil and gas industry, while just over half of E&P company and government representatives surveyed felt the industry is in the early stages of growth/recovery. The E&P confidence is a positive sign that there may be a turnaround in critical exploration activities.

Manufacturing was the most confident in the short-term, mid-term and long-term, while the service and supply sector’s confidence grew quite noticeably in the mid-term period.

Survey participants also noted there had been a number of recent drilling successes off the west coast of Australia including Phoenix South and ROC, while the large exploration programmes being planned by the likes of Shell, BP, Chevron and Woodside have the potential to lead to significant new developments in the near future.

This latter point was identified by a number of survey participants, who responded:

**“New offshore oil reserves are being discovered and we are in a prime position to extract. The new Shell Prelude will also make a massive difference to the way we work in the future.”**

And further:

**“We are now receiving enquiries for new developments and extensions to existing subsea infrastructure.”**

With oil prices continuing to look stable and the global economy and energy demand forecast to remain strong, there is every indication that outside forces will help maintain the local industry’s confidence that the industry is rebounding strongly.



## Confidence growing in profit and spending growth

Supporting the improved confidence in the future of the local industry, a large percentage of individual businesses believed that their company would achieve profit targets over the next 12 months.

Many of the individual company representatives surveyed indicated they were now in a position to achieve steady growth targets. Almost three quarters of the respondents surveyed were confident their organisation would grow over the next two years; while around 90% believed their company would grow over the mid and long-term periods.

Along with increasing staff numbers, many companies said they will be working hard to keep their teams in place. It was also noted that there are some good quality graduates coming through.

A number of respondents also suggested that new technologies and ideas will be an important part of their future growth plans.



## Innovation identified as a key to future growth

With Australia largely moving out of the construction and into the operating phase for the major LNG projects, the use of new generation digitalisation and AI technology has been identified as a clear priority.

More than 80% of survey respondents said their company would be investing in new technology and innovation over the next three years. They also indicated that there would be increased investment in R&D within their own organisations.

Responses from the participants included:

**“Our company is moving into digital which will open more doors in O&G and other industries.”**

**“We have a strong focus on technology and innovation driving down costs of developments even further.”**

Respondents also named increased collaboration as a top priority to support industry growth over the short term. Almost 90% of respondents said their company would be undertaking increased collaboration over the next three years.

The respondent’s confidence in the industry’s long-term growth was notably similar in the mid 60% across a range of different sectors.

On the negative side, respondents also noted that there were still a number of barriers to continued growth. Those who were less confident pointed to the growing use of renewable energy as a potentially significant barrier to future growth.

While oil price concerns have slipped to just 11% as a hindrance to overall industry growth, most respondents (89%) said high costs, particularly in Australia were a barrier.

This was highlighted by a number of respondents with comments on the barriers to industry growth and noted that “Australia’s high cost environment makes our product offering expensive to overseas customers.”

## The effect of “red tape”

There is no doubt that Australia’s oil and gas industry is one of the most tightly regulated in the world.

While there is no argument that safety and environmental scrutiny is a critical component of everyday activities in the local petroleum sector, there is also a strong feeling from some circles that the local industry is over-regulated and at a disadvantage to its global competitors.

A significant number of survey respondents named ‘red tape’ as a potential barrier to further growth opportunities for the oil and gas industry in Australia.

There was also significant concern raised by specifically affected industry groups over the growing number of bans on onshore exploration and development across the country.



Respondents noted that there are: “too many hurdles to jump over to implement growth strategies” and said there was a “lag between approvals and actual FID’s of major projects” and that “regulations on where and how to build rigs, and huge tax margins make the Australian market less viable than it could be.”

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