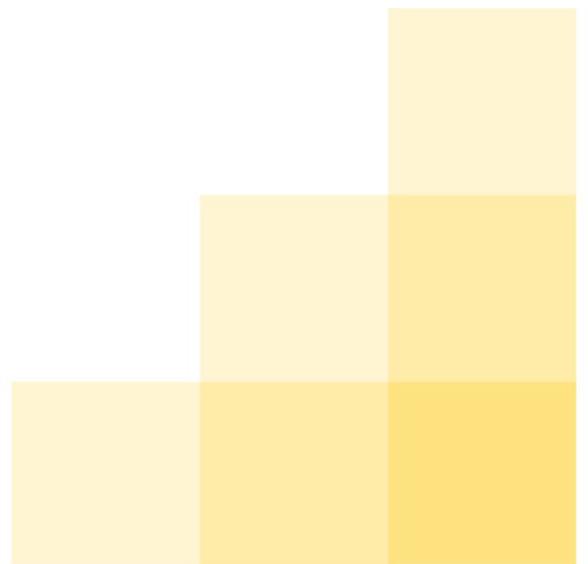




# SHELL AUSTRALIA

SUBMISSION TO THE ENERGY WHITE PAPER ISSUES PAPER  
DEPARTMENT OF INDUSTRY



# Shell in Australia

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# Shell in Australia

## Executive Summary

Shell welcomes the opportunity to provide input to the 2014 Energy White Paper Issues Paper.

As one of Australia's largest investors, Shell is seeking long term, stable policy settings which will encourage investment and growth in Australia's energy resources. Policy settings which encourage the sustainable development of Australia's resources are critical in an international environment where competition for capital, skilled labour and resources continues to sharpen. In particular, the long-term maintenance of fiscal stability is paramount in attracting and retaining the large amounts of private sector investment necessary to see the continued development of the Australian energy sector.

Shell welcomes the preference throughout the Issues Paper towards market-based approaches to energy policy. In our view, market-based approaches offer the most resilient and robust policy mechanisms to ensure that the Australian economy benefits from affordable, sustainable energy while maximising the value of investment in Australia's energy resources. A case in point is the domestic gas sector, where frequent calls for Government action usually reflect a desire to achieve a distinct policy or business objective ((such as the further development of particular sectors of the economy)) rather than any market failure or the long-term interests of the wider community.

Australia needs to carefully manage fiscal and regulatory settings to ensure ongoing investment in Australia's energy sector. In LNG, the emergence of new suppliers in North America and East Africa is increasing competition for investment capital, while at the same time some LNG buyers are seeking a greater share of value from existing producers. In addition, Australian LNG projects have experienced very significant cost escalation, with capital costs exacerbated by multi-factor productivity issues intrinsic to Australia, including remote locations and limited existing infrastructure, along with significantly higher labour costs than those of other LNG exporting countries.

In light of these emerging international factors which will make it harder for future Australian LNG projects to attract both investment capital and buyer support, Floating LNG represents a viable technical and economic development option for Australia's undeveloped gas reserves. FLNG developments will bring significant employment and revenue benefits to the Australia economy over the long term. Australia's first FLNG development, Prelude, is expected to provide:

- a local content component of around 70% in the operations phase;
- 350 direct and 650 indirect skilled jobs for a period of 25 years; and
- an estimated spend of \$12 billion on Australian goods and services.

Shell welcomes the Australian Government's commitment to regulatory reform to minimise business costs without undermining effective regulation. In particular, Shell welcomes the commitment to and progress towards the implementation of the "one-stop shop" process for environmental approvals. In order to continue to foster the development of Australia's oil and gas sector, Shell believes consideration should be given to increasing the flexibility and transparency of the legislative regime for offshore resources, for example by investigating regulatory change to promote frontier exploration.

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The submission below sets out Shell's response to select issues the Issues Paper has canvassed, addressing policy settings that Shell sees as necessary to address Australia's long term objectives of having access to clean, competitively priced energy. In particular this submission will focus on the need to reduce the cost of investing in the Australian energy sector, the need to preserve market mechanisms in domestic and international energy markets, and how Australia can better develop its very significant energy resources.

Shell's feedback is set out according to the headings of the questions for consideration set out in the Issues Paper.

### Shell in Australia

Shell has had a presence in Australia since 1901, when it became the first company to import bulk kerosene into the Australian market. As the Australian energy sector has developed, Shell's business in Australia has grown to the point where Shell's diversified interests in Australia include oil refining; the production of specialist petroleum products; the supply of fuels and lubricants to a vast array of retail and commercial customers and the production of oil and natural gas (including LNG) for both domestic and export markets.

Shell employs over 2200 people in Australia, split between our upstream (oil and gas exploration, development and production) and downstream (refining, sales and marketing) businesses. Perth is the base for the upstream business, which employs over 500 people and is growing rapidly, while Melbourne is the base for significant Downstream business operations.

Shell has invested significantly in Australia's LNG sector in recent years, making Australia core to Shell's long term LNG portfolio. Shell is a major venture partner or shareholder in Australian LNG projects, including the Gorgon Joint Venture (25%), the North West Shelf Venture (16.6%), the Browse Joint Venture (c.27%), the Sunrise Joint Venture (26%) and Arrow Energy (50%).

In addition Shell Australia operates and is the majority investor in the Prelude Floating LNG project (67.5%), which is currently in the construction phase. Shell maintains an active exploration portfolio, with operated and joint venture interests in the Browse, offshore Canning, Bonaparte and Carnarvon Basins.

### The Security of Energy Supplies

Energy markets and supply chains continue to evolve, while new investments in the Australian energy sector face significant increases in capital costs and short term cross currents in international energy markets, especially in natural gas and refined fuels. Overall Australia is expected to remain a net energy exporter for decades, with the exception of crude oil and refined petroleum products<sup>1</sup>. For both liquid fuels and natural gas, Shell believes that market based mechanisms will remain the most robust policy means by which Australia can ensure long term supply of competitively priced, secure energy.

Ensuring robust supply chains will be key to maintaining Australia's liquid fuel security in an environment where Australia's refining capacity is expected to continue to be challenged by

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<sup>1</sup> BREE 2012; Australian Energy Projections

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international competition, supplying a smaller portion of Australia's liquid fuel demand. For natural gas markets, in the long term, market mechanisms will address any short term volatility in supply and demand, setting the framework for the economic monetisation of Australia's very significant identified natural gas reserves. In the natural gas sector, issues such as cost, climate and remoteness make the monetisation of many of Australia's reserves intrinsically and economically challenging.

### Natural Gas

Shell supports market-based policy approaches as the most resilient and robust mechanisms to ensure affordable, sustainable supplies of natural gas and the consequent benefits that flow to the economy, including to producers and consumers. In our view, interventions in the domestic gas market are likely to be counter-productive, discouraging innovation and investment in new supply. While Australia has very large potential onshore gas resources, harder to develop gas reserves are likely to be higher up the cost curve than already developed resources. Market interventions, such as reserving particular permits or parts of projects for domestic production, are likely to be counter-productive, creating imbalances that interfere with the development of the clear price signals that will be required to ensure future investment in the exploration and production of Australia's natural gas reserves.

For example, Australia has large reserves of unconventional natural gas, but these reserves are often distant from existing gas distribution networks, and will generally need significant exploration, appraisal and development before they could become economic. In many cases economic and commercial viability will be further challenged by remote locations, with a lack of infrastructure, land access, road networks and communities with support services. Given these real challenges, some or the larger part of Australia's potential unconventional resources may not be monetised in a sustainable and timely fashion if market interventions such as domestic gas reservation policies forcibly restrict price signals and outcomes.

Calls for Government intervention in the domestic gas sector usually reflect a desire to achieve another policy objective, such as the indirect subsidy of energy intensive industries through depressed energy prices, rather than any market failure or the long-term interests of the wider community. To avoid the economic distortion and inefficiencies inherent in policies that directly or indirectly subsidise the cost of energy, market intervention should not occur unless market failure is demonstrable and there is no alternative policy mechanism. Improvements in the information available to energy market participants will assist in the development of clear pricing signals, providing a safeguard against the theoretical risk of market failure. If market intervention is considered necessary it should be undertaken in a manner that sees no long-term detriment to energy consumers or producers with transparent and consistent approaches avoiding the pitfalls of market distortions through subsidised energy. Shell expects that market forces in the domestic gas market, like any other commodity market, will respond appropriately to market signals. Transparency of markets and broad participation is key to success and Shell believes this should be Government's area of policy focus.

The current policy settings of the Western Australian Government require that an amount of domestic gas equivalent to 15% of LNG production be "reserved" from onshore LNG projects. While Shell respects the Government of Western Australia's interest in energy security and economic development, Government intervention in markets should occur only where it is apparent that market failure will occur: this is not the case in the WA gas market. Indeed, the

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WA Independent Market Operator recently found that the west coast domestic gas market will be well supplied to 2020, with tight market conditions post 2021 only in a low case supply scenario.<sup>2</sup> In continuing to apply the policy, the Western Australian Government runs the risk of creating a large domestic gas supply overhang to the advantage of a very few large industrial users of gas, rather than maximising the efficient or equitable use of energy resources. The unnecessary application and extension of this policy has significant economic risks for investors, and could bring into question the commercial viability of future LNG and domestic gas projects. While representatives of industrial gas users have called for the domestic gas reservation policy to apply to all current and future LNG developments including Floating LNG, including Floating LNG, this ignores any reality of commercial viability.

### Liquid Fuels

Shell expects Australia's well functioning liquid fuels market to deliver secure and reliable fuel supplies at competitive market prices. Liquid fuel security continues to receive ongoing policy consideration, with Shell in Australia consistently advocating the following reform principles to better serve Australia's growing demand for liquid fuels which include:

- A strong market-based approach to liquid fuels with minimal intervention;
- The improvement of planning, approval and regulatory processes at State level to enable efficient, timely, long-term investment in supply chain infrastructure;
- Avoiding the regulation of third party access to bulk fuel terminals and distribution infrastructure, which reduces incentives for supply chain investment and increases cost to fuel supply;
- Equality in the fiscal treatment of imported and domestically produced ethanol, ensuring that if fuels are taxed, then they are done so on a comprehensive and neutral basis according to energy content, so that consumers can make informed decisions about fuel choice;
- Addressing any government policy and regulatory impediments (including those that overlap or compete with different State schemes/policies) that prevent Australia from maintaining a high level of liquid fuel security over the longer term; and
- Not imposing the unnecessary burden on industry to hold additional stock under the auspices of energy security needs.

Shell notes that the Issues Paper specifically sought feedback on how Australia could best comply with IEA requirements for a 90 day stockholding of liquid fuels. Shell supports the Australian Institute of Petroleum view that:

"... any consideration of emergency stockholdings requires very careful examination of the costs of stockpiling against the risk-weighted benefits of such action and how Australian emergency stockholdings will contribute to an IEA collective action in the event of a global supply disruption."<sup>3</sup>

If Government was to develop a strategic petroleum reserve, aside from the direct cost to taxpayers (identified as A\$6.8 billion in the Issues Paper), the need for careful inventory

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<sup>2</sup> WA Independent Market Operator; Gas Statement of Opportunities; January 2014

<sup>3</sup> Quoted in "Report on Australia's Oil Refinery Industry", Parliament of Australia, 2013

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management would in all likelihood distort Australia's liquid fuels market as stock was turned over.

Shell believes that market driven policies have delivered supply reliability at a competitive cost to consumers and remain optimal from a public policy perspective to manage the challenges faced by the industry. Shell's current level of infrastructure and commercial stocks are sufficient to manage normal operational requirements, supported by highly effective supply contingency strategies and capabilities that can respond to supply disruptions through proven, mature and diverse supply chains. These stock levels reflect an ongoing assessment of the operating conditions throughout the supply chain, and from time to time will see changes in stock levels at particular locations along with investment to better meet market demands.

### Regulatory Reform and Role of Government

#### Transparency in Gas markets

Domestic gas markets in Australia continue to develop with more players participating as sellers and buyers, particularly in the Eastern Australian and Western Australian markets. However in each case, the markets continue to be dominated by relatively small numbers of large customers and large suppliers, who have traditionally agreed long term contracts for supply. Limited transparency of clear pricing signals in these markets has in turn limited the development of efficient and effective market dynamics.

Initiatives taken by governments in establishing mechanisms to improve transparency are proving important in increasing information available to market participants. The Australian Energy Market Operator (Eastern Australian market), and more recently the Independent Market Operator (Western Australian market) have been established in part to improve information flows with the objective of improving market efficiencies. Ensuring that these entities continue to be viewed as independent will further develop confidence for the market participants to continue to provide such necessary information. This, in turn will allow pricing signals to be efficiently recognised, allowing for timely market response as opportunities are identified. Governments can facilitate this process by embedding the independence of these institutions and by continuing to encourage market players to participate in the timely flow of relevant market information.

### Growth and Investment

#### Growing investment through better regulation

Australia's complex and overlapping regulatory systems multiply project risks and complexities, increasing costs for large scale projects without improving regulatory outcomes. As noted in an Australian Petroleum Production and Exploration Association (APPEA) study, Australia's complicated, overlapping regulatory approval processes could significantly increase project capital expenditure costs and add to schedule delays. For example, APPEA found that in the case of large offshore LNG projects, project delays could decrease revenue to Federal and State Governments by as much as 12%<sup>4</sup>.

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<sup>4</sup> APPEA "Cutting Green Tape" 2013

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Shell supports the Australian Government's commitment to simplifying regulatory processes to strip out business costs, while at the same time allowing for robust, outcome-based regulation. Shell welcomes the Australian Government's commitment to streamline environmental approvals for the offshore petroleum industry. This policy approach addresses Shell's consistent request to Federal and State Governments for a single, robust, risk based assessment of health, safety and environmental issues associated with offshore petroleum activities. While Shell supports robust environmental regulation regimes, Shell welcomes initiatives to reduce unnecessary regulatory burdens without lessening protection of the environment. Shell has consistently supported the "one stop shop" environmental approvals proposal for large energy projects, and welcomes the good progress made by the Australian Government in implementing this worthwhile reform.

### Increasing Australia's ability to develop energy resources

Shell believes that the current legislative regime for offshore resources, has to a large extent, balanced security of tenure for investors with the development of commercial resources as soon as practicable. The very large investment in recent years in both exploration and development is a clear indicator that the system is working. However, at the same time, costs for offshore exploration, appraisal and development have escalated significantly in Australia, leaving investors much less value from the same investment spend from even five years ago.

Shell supports pursuing opportunities to further improve the regulation of Australia's oil and gas resources by providing increased transparency, greater certainty, streamlining administration and ensuring a rigorous application of the commerciality test. For exploration activity, it is the case that planning, procurement and approval timelines have increased significantly in recent years, particularly for complex exploration activities such as deep water wells in frontier areas. To better reflect the costs and timelines of modern exploration activity, Shell would support the Government improving flexibility in exploration permits, for example, by allowing activity to be conducted within the primary or secondary terms rather than on a year by year basis.

Shell supports the Government revisiting a "project title" concept, to accommodate the reality that large LNG projects have very long project timeframes with very large sums of up front capital expenditure. For these reasons, Shell believes that ongoing policy development to promote security of access to reserves for LNG projects should be progressed. In Shell's view, such a reform would be welcome in aiding investment, especially if it provided the ability to group fields for both retention leases and production licences associated with one LNG development. This would significantly increase investment certainty for those very large projects which need to develop a number of fields sequentially over the life of the project. Using the award of permits under the OPPGSA as a lever to create indirect or direct market intervention in the domestic gas market should not be a consideration, as this policy would see less revenue to the Federal Government and distorted domestic energy markets

### Investment and innovation

Shell strongly supports the right of equity holders in offshore resources to select and develop the most commercially viable development option, subject to the usual processes of assessment for environmental impact and efficient hydrocarbon recovery. In the long term, allowing proponents to select the development option on this basis is in the national interest, as proponents will pursue economically efficient development options, increasing revenues for Government and avoiding inefficient investment.

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In particular, Shell believes that investment decisions regarding the use of Floating LNG technology should be made by project proponents on a case by case basis within stable policy settings. Maintaining the ability for proponents to select Floating LNG as a development option will help maintain the international competitiveness of Australia's LNG sector, while at the same time allowing long term revenues and employment opportunities to be gained by the Australian economy.

Shell FLNG has a mature design basis, with more than 2 million man-hours invested in research, detailed design, development and integration of existing LNG technologies. Shell's standardised FLNG design focuses on safety, robustness and high availability to enable continuous, stable LNG production. The design has gone through extensive testing programs and simulations to ensure its safety throughout all weather conditions. Safety and reliability is on a par with modern offshore oil and gas facilities. The smaller footprint of FLNG developments results in significant cost and schedule advantages and greatly reduces the environmental impacts compared to onshore LNG projects.

Shell expects that the broader introduction of FLNG will have significant economic benefits for Australia, Western Australia and the Northern Territory in the long-term, bringing opportunities for Australia to consolidate its position as a centre of excellence and a global service centre for the global LNG and FLNG sectors. While Australian firms are involved in the construction phase, the main economic opportunities for local business participation will come over the decades of the operations phase, where we expect FLNG will exhibit similar local content outcomes to onshore LNG developments. Shell expects that Prelude FLNG will:

- have a local content component of around 70% in the operations phase;
- create 350 direct and 650 indirect skilled jobs for a period of 25 years; and
- have around 80% of this workforce living and working in Western Australia

### Cash Bidding

Cash bidding, where it is applied, is usually part of a broader system that reflects the risk/reward balance in exploration including differential royalty rates and an assessment of the difficulty of exploration. While cash bidding is notionally attractive to Government in areas of high prospectivity, as it offers better price signals as well as up-front revenue, in the long-term, such a system could undermine the accumulation of knowledge on Australia's energy resources.

Shell notes the Federal Government has introduced legislation to extend cash bidding and requests implementation of this policy be considered carefully, with significant industry consultation, to support investor confidence in the acreage release process.

### Frontier acreage

In the case of oil, Australia's existing oil fields are largely mature and in declining production. In the near future, Shell plans to increase its focus on identifying and developing new and frontier oil reserves in Australia. Identifying and developing new reserves of oil would bring significant economic benefits to Australia, but with heartland basins well understood future oil will require innovation in exploration and production, and may well require adjustments to existing policy settings to better reflect the high risk reality of frontier exploration. Shell believes the Federal

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Government should consider increased flexibility for frontier exploration activities... In particular, the award of frontier areas for seismic exploration only (or other geophysical screening methods), or on an exclusive basis for a number of years with data confidentiality, should be considered for these types of frontier activities.

### Trade and International Relations

#### International competitiveness and Australia's energy exports

It is now widely recognised that the LNG export sector in Australia is facing much stronger international competition for investment capital and for access to international markets. For investors in the LNG sector, cost disadvantages are exacerbated by multi-factor productivity issues intrinsic to Australia, including remote locations and limited existing infrastructure, along with significantly higher labour costs than those of other LNG exporting countries. Together these (cost and schedule) factors make Australian landed LNG 20-30% more expensive than competing suppliers, particularly North American and East African suppliers<sup>5</sup>.

The reality is that, even addressing those factors that can be changed by policy or industry response, Australia's intrinsic factors see us at a comparative cost disadvantage when compared to economies such as North America. In future, Australian LNG projects will have to be even more competitive to deal with these intrinsic disadvantages such as remote locations and inadequate infrastructure and technically challenging / high cost subsurface and reservoir conditions..

The development of Floating LNG technology represents an example of how technical innovation can provide economic development options for gas reserves, depending on the challenges and opportunities each project presents. With real cost and schedule advantages, Shell believes that FLNG enables the development of gas resources ranging from smaller, more remote fields to potentially larger fields (via multiple facilities). In Australia, FLNG is a direct response to market conditions, allowing the Australian LNG sector to remain cost-competitive and capture Asia-Pacific LNG market opportunities. The same is true in a number of other LNG supply countries globally, where FLNG is also being actively considered.

#### Workforce Productivity

To provide the right conditions to lower investment and operating costs in the energy sector, Shell believes it will be necessary to continue to develop Australia's skill base, as well as improving labour productivity and flexibility in the long term. Large energy projects require substantial skilled workforces – larger but short term in the construction phase and smaller but highly skilled in the long term. The difference between these two phases creates fluctuations in skilled labour demand and those skills can be lost in periods between the construction of projects, creating shortages of available skilled workers.

The realisation of Australia's resource potential will continue to require co-ordinated policy measures from all levels of Government to enhance the availability of suitable labour. In this

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<sup>5</sup> Extending the LNG boom: Improving Australian LNG productivity and competitiveness – McKinsey and Co., May 2013

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regard, Government preparedness to provide appropriate short-term skilled migration visas is important in meeting employer needs, but remains one only one part of the solution.

The unprecedented scale of recent investment in LNG projects has stretched the capacity of the Australian labour force in key areas. As LNG projects move into the operations phase over the next few years, it is expected that the skilled and experienced labour to operate these facilities will be a key constraint.

Shell accepts that employers have a role in the development of Australia's skills base and has been working with partners including government, the tertiary and vocational training sector to build training and workforce capacity for Prelude FLNG. In preparation for Prelude FLNG, Shell has developed a number of initiatives aimed at building local capacity to support the project. The FLNG Training Consortium is a partnership between Challenger Institute and Curtin University, established with financial support from Shell. This partnership will see the creation of the first FLNG training facility at the Australian Centre for Energy and Process Training (ACEPT) in Henderson, and will train all operators for Prelude FLNG.

### Improving Workforce Flexibility

Inflexibilities in the workplace are a drag on efficiency and productivity. The Australian workplace has arguably the most regulated labour market in the world - there is no comparable international example. It is an adversarial legalistic system underpinned by complex regulations, awards, industrial instruments and common law. The impact on labour workplace flexibility is significant.

A review of any random selection of industry awards and agreements will identify a multiplicity of outdated work practices and obligations and inconsistencies that frustrate the flexible utilization of labour. As an example, if we take an industry standard of 38 paid hours of work per week, a combination of regulations and unreasonable workplace restrictions ensure the productive utilization of the paid available hours is not achievable. Workplace flexibility and productivity will vary from business to business, but the present regulatory system institutionalizes inefficiency and must be reviewed.. In Shell's view the Fair Work Act 2009 is in need of reform to allow for alternative and genuine non-union agreement options, particularly for Greenfield agreements, to ensure that workplace collaboration focuses on genuine and good faith bargaining, and to create flexibility in negotiating work arrangements to improve productivity right across the Australian economy. In order to minimise the disruptive impacts of industrial bargaining during the construction phase of mega-projects, whole of life project agreements could also be considered in this reform.

### Energy Productivity

Shell supports the view taken in the Issues Paper that for many companies, energy prices and the desire for cost reduction is a more compelling driver in motivating energy management than mandated regulatory requirements. Shell does not support the continuation of the Energy Efficiencies Opportunities (EEO) Program as we see it having no net energy efficiency or environmental benefits that would not have been captured by business decisions to maximise energy efficiency. Shell welcomes the commitment of the Australian Government to terminate funding for the EEO program from 1 July 2014. In addition, Shell would like to see Government

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at Federal and State level working together to ensure that no successor regime imposes additional complexity on business for energy efficiency reporting.

### Alternative and Emerging Energy Sources and Technology

#### Alternative Fuels

Shell supports a long-term framework for the development of alternative fuels and co-ordination of industry and government efforts where there is an identified market failure. Shell is concerned to avoid significant and ongoing market distortions in the development of the alternative fuels sector as has been our experience in the ethanol industry. To avoid long term market distortions, if Government incentives for alternative fuels were to be introduced into the market, it should be in the context of creating a level playing field and should be temporary, in the early introduction phase of new fuel/technologies such as LNG for transport.

Shell sees an ongoing role for Government in the promotion and development of the alternative fuels sector in Australia. For instance, Government is best placed to provide consumers information on the application and viability of new technologies and provide an independent review using consistent methodology of their environmental benefits. In addition, Government may need to consider measures to foster the alternative fuels sector in ways that avoid market distortions but promote alternative fuels, For instance, in the LNG for transport sector, significant barriers to entry remain for both investors and users in the retail and distribution sector. For example, , while commercial road users are unlikely to convert to LNG unless long term supply is available. A further complexity is the significant cost of new engines or the modification of existing engines, bringing issues of maintenance and the end user relationship with original equipment manufacturers into the mix.

#### Key Messages

- Australia is facing much stronger international competition for investment capital and for access to international markets. For investors in the LNG sector, cost disadvantages are exacerbated by multi-factor productivity issues intrinsic to Australia, including remote locations and limited existing infrastructure, along with significantly higher labour costs than those of other LNG exporting countries.
- Shell supports market-based policy approaches as the most resilient and robust mechanisms to ensure that consumers and the economy benefit from affordable, sustainable supplies of natural gas in the long term.
- Shell sees that investment decisions regarding the use of Floating LNG technology should be made by project proponents on a case by case basis within stable policy settings. Maintaining the ability for proponents to select Floating LNG as a development option will help maintain the international competitiveness of Australia's LNG sector, while at the same time allowing long term revenues and employment opportunities to be gained by the Australian economy.

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- Shell does not support the continuation of the Energy Efficiencies Opportunities (EEO) Program as we see it having no net energy efficiency or environmental benefits that would not have been captured by business decisions to maximise energy efficiency. Shell welcomes the commitment of the Australian Government to terminate funding for the EEO program from 1 July 2014. In addition, Shell would like to see Government at Federal and State level working together to ensure that no successor regime imposes additional complexity on business for energy efficiency reporting.
- The Fair Work Act 2009 is in need of reform to allow for alternative and genuine non-union agreement options to create flexibility in negotiating work arrangements to improve productivity right across the Australian economy.
- Government should consider measures to foster the alternative fuels sector in ways that avoid market distortions but promote alternative fuels. For instance, in the LNG for transport sector, significant barriers to entry remain for both investors and users in the retail and distribution sector, while commercial road users are unlikely to convert to LNG unless long term supply is available.
- Shell believes the Federal Government should consider increased flexibility for frontier exploration activities. In particular, the award of areas for seismic activity only, or on an exclusive basis, should be considered in true frontier exploration areas.