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Net zero or bust: gas sector's critical moment

Angela Macdonald-Smith *Senior resources writer*

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Brent oil prices toying with $US73 a barrel and LNG prices back into double figures should have made for a buoyant mood at the annual oil and gas industry conference this week, especially after last year's pandemic-forced cancellation.

But a dark cloud hung over the Perth Convention Centre for the three-day Australian Petroleum Production and Exploration Association talkfest, one that has put the sector in serious peril, regardless of commodity prices and the newly confirmed bipartisan federal support for gas.

That cloud formed three letters: ESG.

Dogged by protests: fossil fuel opponents staked out the APPEA conference in Perth on a daily basis. **Trevor Collens**

Put simply, it is "net zero or bust" for the industry, as environmental, social and governance issues have rocketed to the top of the agenda in recent months.

The climate protests that have become a typical part of oil and gas conferences for the past several years have rapidly developed into something that threatens the very existence of the sector in its current form.

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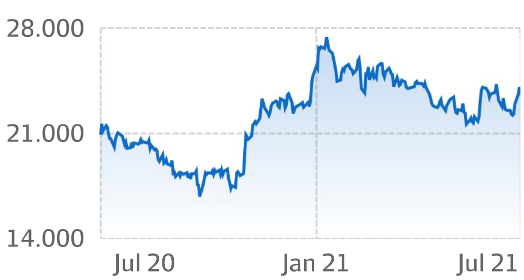

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ESG concerns are now putting at risk the funding lifeblood of the industry, as equity and debt investors shy away from the sector, and the viability of operations as that wariness spreads to insurers.

"Every participant in this space is walking a tightrope, walking on eggshells," Credit Suisse energy analyst Saul Kavonic told one of several panels digging into today's brutal investment environment for the sector.

At the front of the firing line for protesters at the conference is Woodside Petroleum's $15 billion Scarborough gas project in Western Australia, which acting CEO Meg O'Neill is steering firmly towards a final investment decision later this year.

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The project will lock Woodside and its partners into another 20 to 30 years of production of gas, which now raises almost as many red flags for climate-conscious financial institutions as coal, and sensationally drew a blast from iron ore billionaire Andrew Forrest on the eve of the conference.

O'Neill extended her staunch defence of the project on emissions grounds, pledging that "by the time the LNG that comes from the Scarborough field gets to our customers, largely in north Asia, it will be some of the lowest carbon intensity available in the world".

Santos CEO Kevin Gallagher similarly dismissed Forrest's criticism of the recently approved $4.7 billion Barossa gas project as not relevant, citing carbon capture plans and Santos' 2040 net zero emissions target.

But while the majors batted off the critics, the impacts of mounting wariness towards gas pervade the sector.

Gas could 'go the way of coal'

"We have a shrinking investment pool here in Australia," says Strike Energy chief executive Stuart Nicholls, fresh from a "much harder" than expected $80 million capital raising for promising Perth Basin gas projects,

"If it gets too hard it will go the way of the coal industry," he says, adding that friends who have started green funds in Melbourne walk out of drinks with him to avoid being seen with a gas company CEO.

Cooper Energy sought to counter the threat by becoming the country's first carbon-neutral domestic gas producer, a move CEO David Maxwell says prevented about a quarter of the company's institutional investors from heading for the exit.

"We have kept investors – I'm not saying we've attracted new ones, but we've kept some that otherwise would have gone," Maxwell says.

"I know that there are some [institutional investors] that have a blacklist and a whitelist ... and because we are net zero already, we are the only company on the whitelist."

At mid-cap Beach Energy, CEO Matt Kay says that while he got the first ESG query from investors only about 2½ years ago, now half the questions in meetings with investors are on that theme.

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Preying on the minds of institutions and bankers are climate-related financial risks, which have only further shot up the agenda thanks to recent landmark events, including a Dutch court ruling requiring more aggressive emission cuts by Shell and an International Energy Agency report that found no new fossil fuel resources should be developed, to have a 50:50 chance of meeting climate goals.

That helps create what Santos CEO Kevin Gallagher describes as “a fundamental disconnect” between what the world says it wants from energy transformation and what it is consuming.

Demand for LNG is continuing apace, with China, now the biggest consumer, importing a record volume in May. Santos’ Barossa gas project has long-term contracts with Asian buyers to cover its output, while Woodside is well on the way with customers for Scarborough.

After all, the tech sector alone consumes more electricity each year than all of the solar and wind produced worldwide, points out Scott Tinker, director of the bureau of economic geology at the University of Texas at Austin, who puts annual tech power demand at 3100-3200 terawatt-hours, with 2100-2200 TWh of wind and solar generation.

Long way to go for clean energy

"And they are both growing, so scale matters," he says.

"The tech sector could buy every single offset credit from solar and wind and it wouldn't be enough just for that sector," Tinker adds, calling for a more holistic focus for clean energy that includes demand as well as supply.

Shell Australia chairman Tony Nunan is optimistic the industry can transform, as it has in the past.

"Some of the tone we get in questions is: are these companies going to exist in a hundred years' time and are they capable of transitioning?"

To answer, he recalls Shell's origins under London-based antiques seller Marcus Samuel who in 1833 branched into oriental seashells, a popular interior decoration of the time, sowing the seed for the famous brand and logo.

'We don't sell shells anymore'

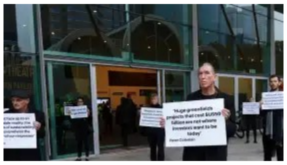
"One hundred and fifty years ago that was our product, that's what we sold, we don't sell shells any more," he says.

"We have been through these transitions and we will continue to transition as we go."

While that transformation is firmly aimed at clean hydrogen longer term, it has elevated the importance of carbon capture and storage in the nearer term.

That is one area where the industry and environmental groups clash, with the latter worried that CCS, with its patchy track record, will only prolong the use of fossil fuels – despite the endorsement of former chief scientist Alan Finkel and other scientific authorities.

"The future is not a natural extension of the past," says Kelly O'Shanassy, chief executive of Australian Conservation Foundation, who accepts the need for CCS in difficult-to-abate sectors but opposes public funding for it.



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"Exponential change in the impact that climate change will have on us, the amount of emissions reduction that we will need to have, and therefore how fast we will need to transition, is real, and the more we get mesmerised by the reasons we shouldn't act and mesmerised by the complexity of transition will slow us down and we will fall off a cliff."

At the APPEA conference in Perth, Labor's resources spokeswoman Madeleine King struck a balance that provided some comfort to beleaguered gas companies.

She denounced as "dangerous and wrong" both the push by activists to shut down oil and gas extraction and demonise fossil fuels, as well as the climate change deniers at the other extreme.

"The reality is this: the inevitable global transition to net zero emissions presents a massive economic opportunity for Australia and its natural commodities, including natural gas."

Angela Macdonald-Smith writes on the resources industry with a focus on energy, including gas, oil, electricity and renewables. *Connect with Angela on Twitter. Email Angela at amacdonald-smith@afr.com*

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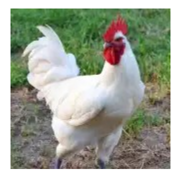

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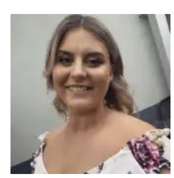

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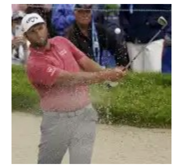

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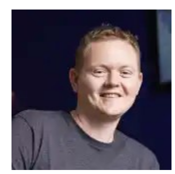

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