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MarketWatch at Mon 14th May 12:25pm AEST Markets Closed Markets Open

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ROBIN BROMBY
'Most investors will have much lower capital gains to offset this year'



Skills gap blamed for blowouts

ANDREW BURRELL The Australian May 14, 2012 12:00AM



Wages in the oil and gas sector in Australia are much higher than elsewhere in the world Source: PerthNow

A SPATE of multi-billion-dollar cost blowouts in Australia's oil and gas industry has been blamed on a major demographic shift as workers hired in the 1970s begin to retire and the low hiring rates of the 80s and 90s leave a shortage of mid-career professionals.

As the industry gathers in Adelaide today for the annual APPEA conference, a report by advisory firm Resource Investment Strategy Consultants cites demographic changes as a little-understood cause of the rising costs that have emerged as one of the biggest issues facing the sector.

RISC advises major oil and gas companies on final project costs.

The study comes after the value of committed oil and gas projects soared to more than \$170 billion last year with the approval of Chevron's \$29bn Wheatstone liquefied natural gas project in the Pilbara, Shell's \$12bn Prelude floating LNG project off the West Australian coast and the

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\$14bn first stage of the Origin Energy/Conoco Phillips Australia Pacific LNG joint venture at Gladstone.



British gas giant BG Group's Gladstone coal-seam gas project was hit this month by a \$US5bn cost blowout, while Woodside's Pluto LNG project in the Pilbara will start exporting within days after costs rose to \$14.9bn from an initial estimate of \$11.2bn.

RISC chief executive Will Pulsford said while rising wage and equipment costs were a well-documented problem, these were not solely responsible for all the recent blowouts in Australian projects.

He said that salaries in Australia's oil and gas sector were up to double the global average, but productivity was falling as companies were paying for a less well-trained and experienced workforce.

"The peak of workers hired into the oil and gas sector in the 70s are leaving, but low hiring rates in the mid-80s and 90s has left a skills gap behind them," he said.

"The grey hairs are leaving the industry or getting close to retirement age, but there is a shortage of trained and experienced 35 to 50-year-olds to take their place."

Mr Pulsford said the industry should examine more efficient uses of skilled labour.

It should consider greater collaboration between projects that could result in less -- but more efficiently used -- infrastructure being built and project schedules planned to allow for peaks in demand for construction workers.

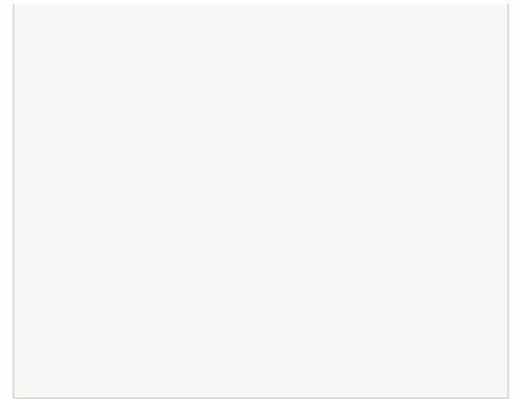
Mr Pulsford called on coal-seam gas projects to take a longer-term view of capital cost management. He said the "headline" capital spend needed to reach first production in an unconventional gas project was only half the total capital of the project.

The ongoing need for new wells and gas-gathering systems to maintain production required the same level of spending again over the project lifetime.

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Company Name	Price	Change	%Change
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Decmil Group	2.90	+0.10	▲ +3.57%
Mirabela Nickel Lim...	0.34	+0.01	▲ +2.98%
Beadell Resources	0.60	+0.01	▲ +2.56%
Adelaide Brighton	3.09	+0.07	▲ +2.31%
Alacer Gold Corp.	6.43	-0.38	▼ -5.59%
Silver Lake Resour...	2.62	-0.13	▼ -4.73%
Gryphon Minerals	0.70	-0.03	▼ -4.11%
Ramelius	0.50	-0.02	▼ -3.85%
Senex Energy	0.84	-0.03	▼ -3.45%



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