

**ANALYSIS** BUSINESS COMPANIES ENERGY

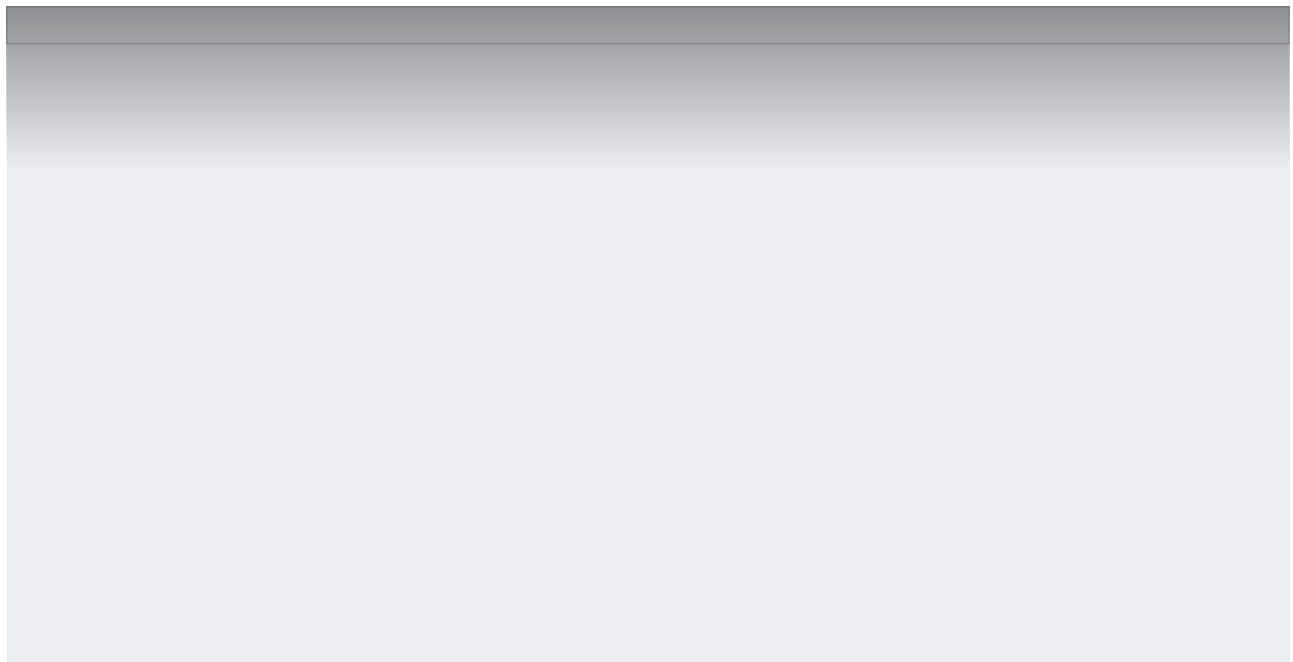
Harbour Energy faces four FIRB hurdles in its bid to acquire Santos

By Cole Latimer
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Harbour Energy's proposed \$13.5 billion takeover of Santos is one of the largest Australian oil and gas acquisitions in recent times, yet despite the seeming inevitability of this latest tilt at Santos, it is still not a done deal.

As the days count down until Harbour puts through its final applications to the Foreign Investment Review Board (FIRB), there are four major hurdles the company will likely face where it will have to provide concessions if it is to gain approval. These are:

- Retaining jobs
- The Santos head office staying in South Australia
- Ensuring domestic gas supply
- Restraints on the levels of Chinese ownership



Harbour will have to consider retaining a comparative level of employment if it is to gain FIRB approvals.

Photo: Leigh Tonkin

A local workforce

Harbour will have to look at keeping jobs in South Australia, Queensland and the Northern Territory.

As a source of many white-collar jobs in Adelaide as well as the blue-collar jobs around the rest of the state, particularly in the Cooper Basin, Harbour would probably need to make a commitment to jobs in South Australia as a priority for its FIRB application.

The company has undergone a number of restructures over the last few years – Santos cut around 700 jobs in 2015 alone – so there are few jobs that could go.

Harbour Energy is also unlikely to split up Santos if it were to gain control, with the recent acquisition of its North Sea assets, off the UK, an example of the path it would take in keeping the acquisition as a combined entity.

Sources familiar with the company believe it has no plans to divest any of its assets in the near to medium term, and while there are a number of groups that would be willing buyers of individual assets, it is extremely unlikely Harbour would offload any projects.

An Adelaide HQ

One of the major areas that Harbour would likely make a concession is around retaining operations in South Australia.

Santos remaining in Adelaide will likely be a key component in Harbour's FIRB concessions.

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Photo: David Mariuz

The importance of the company remaining in the state and the role Santos still plays in the broader psyche of South Australia can't be understated. As one of the last remaining major businesses still gracing Adelaide's skyline, following the exit of Holden and News Corp, the city won't give up Santos easily. One of newly-minted South Australian Premier Steve Marshall first tasks was to seek assurance that Harbour would retain a headquarters in the state.

Whether it remains the backer of the Santos Down Under cycle tour, another drawcard for the state of South Australia, remains to be seen.

Stopping a shortage

If the gas shortage were to continue in the coming years – an unlikely proposition given the recent commitments by major gas companies to secure domestic gas – then the acquisition may become a lightning rod for the government.

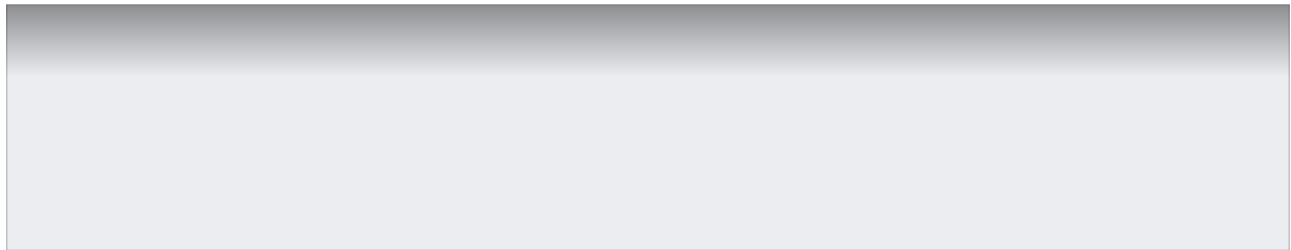
"[There is] the potential risk of the [Harbour Energy] transaction being politicised," Macquarie Wealth Management said in a recent note.

"With a federal election likely in 2019, and the scars of last year's Australian Domestic Gas Security Mechanism still fresh, we see a real risk around the perception of gas markets," it said.

The possible supply agreements between Harbour and Santos's Chinese stakeholders ENN and Hony may come under the spotlight if there is a renewed push by the government for more domestic supply. However, if Harbour continues to walk the path of ensuring a domestic gas contingent, then this is less likely to be an issue.

Chinese ownership

In order to get the acquisition over the line, Harbour will likely have to make a deal with Chinese firms ENN and Hony – which hold a combined 15 per cent of Santos. These two Chinese companies have made it clear they want to retain exposure to Santos' assets and remain in any new vehicle created in order to have access to a secure LNG supply.



Chinese firms want to retain exposure to Santos's assets in any new delisted company, potentially creating an FIRB hurdle for bidder Harbour Energy.

Photo: Ashley Roach

This could present a problem for Harbour.

A lawyer familiar with the FIRB process and the energy sector said issues around both Hony and ENN retaining a stake in the potentially acquired Santos could be a hurdle, however, the fact they already hold a major stake may negate it to a degree.

"It's very hard to say when it comes to Chinese ownership, as they are notoriously difficult calls to make," he said.

"We can look at the case of poles and wires as a classic example of government," he said, referring to [new rules launched in February aimed at restricting foreign ownership of electricity infrastructure](#), "but in other cases, it has not been a concern".

"National security issues will come down to a political call."

The fact Santos is not consumer-facing – as are other major gas suppliers Origin and Shell – may mean a Harbour-owned entity would draw less criticism for no longer being "Australian-owned", despite the fact these Chinese firms already hold a large stake in the publicly-listed vehicle prior to any sale.

Harbour is only weeks away from its application, and will no doubt consider these major issues, but with the spate of growth Santos has seen since Harbour's offer earlier this month, including getting to the next phase for its Narrabri coal seam gas operations in NSW, progressing its Barossa Darwin backfill project, and the NT opening up the Betaloo region to fracking, the company is only becoming a more attractive buy.

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