



WA's Oil and Gas Expansion: Sustaining Growth, Spreading the Benefits

**Peter Coleman, CEO and Managing Director
Woodside Energy Ltd.**

UWA University Club, 11 December 2012

Thank you David. It's a pleasure for Woodside to take part in this morning's conference.

I would like to thank APPEA for the work they are doing, including through forums such as this, to highlight the major economic contribution made by Australia's oil and gas industry.

It is important that we continue to build awareness of this contribution at a time when many Australians are questioning the impacts of our so-called 'resources boom'.

As we have heard this morning, there is a strong body of evidence showing that many sectors of our economy, and very large numbers of Australians, are benefiting from the growth of our industry.

Yet despite this evidence, what many Australians see and hear of our resources expansion, including the oil and gas sector, often has negative connotations.

A high Australian dollar making life tough for exporters; a so-called 'hollowing out' of our manufacturing sector; increased living costs and social problems in some of Australia's fast-growing resources towns.

Hearing these reports on a daily basis, it is understandable why many Australians might feel ambivalent about our resources expansion.

Trying to reconcile these divergent views reminds me of an exchange between British Prime Minister John Major and Soviet President Mikhail Gorbachev during the dying days of the former Soviet Union.

With inflation and unemployment rising, budget deficits spiralling and food shortages across the country, Major asked Gorbachev to sum up the USSR's economic situation in a word.

To which Gorbachev replied, "In one word? Good".

Taken aback by this response, Major asked Gorbachev how he would describe the situation in two words.

To which Gorbachev replied, “In two words? Not good”.

Obviously I am not suggesting any parallels between Australia’s current economic challenges and those of the former USSR.

But I am struck by the similarity between Gorbachev’s comments and the current debate in Australia over whether our resources expansion is creating a ‘glass half-full’ or ‘glass half-empty’ economy.

It is a difficult debate to resolve, because your perspective will be heavily influenced by where you are standing as you look at that glass.

For a Woodside employee working on one of our large projects in the Pilbara, the scale of Australia’s oil and gas expansion, and the many benefits this delivers, are obvious.

But for an office worker in Sydney or Melbourne, these benefits may be less apparent. To them, the resources boom may be a phenomenon occurring in another place, involving other people.

However, the true picture is that almost all Australians are gaining in some way from the extraordinary expansion underway in our oil and gas sector.

Benefits to the State: Woodside and WA

For a demonstration of how the benefits of oil and gas development can permeate right through a community, you need only look at what is happening here in WA.

Of the A\$193 billion invested in Australian oil and gas projects currently under construction, just over A\$93 billion is committed within this state.

This includes three greenfield LNG projects, three oil projects, one natural gas project, and two major redevelopments of the Woodside-operated North West Shelf Project.

In particular, WA has a pre-eminent position in the rapidly expanding LNG industry, supplying about 85% of Australia's current LNG exports, and set to contribute about one-third of new global LNG supply in the next few years.

Taking Woodside's LNG projects as examples, we can see that the economic benefits they deliver are significant in size, broad in their reach, and long-lasting in their impact.

First, in terms of direct investment and employment creation, there is no question that they are truly nation-building in scale.

For example, the A\$27 billion North West Shelf Project, commissioned in the 1980s and still accounting for almost 40% of Australia's oil and gas production.

Or the A\$15 billion Pluto LNG Project, which created more than 15,000 Australian jobs during its construction phase.

Second, as has already been outlined this morning, there are substantial flow-on benefits – particularly in the construction and engineering sectors.

Woodside has a policy to maximise local industry participation in our projects where it is capable and competitive on the basis of safety, quality and cost.

We do this by working closely with federal and state governments to identify early contract packages that match local industry capabilities.

The numbers demonstrate the success of this approach, with about 50% of Woodside's capital outlay spent in Australia, and about 80% of our operations budget spent locally.

For example, across Pluto LNG's five-year construction period more than A\$7.6 billion was awarded in contracts to Australian companies.

Our local content results on Pluto LNG and other Woodside projects are very good, bearing in mind that much of the manufacturing capability required for major projects is not currently available in Australia on a competitive basis.

While the direct and indirect local content benefits peak during the construction phase, there are also long-lasting benefits that continue well into the long operational life of these projects.

Twenty eight years after first production and 23 years after its first LNG exports, the North West Shelf Project still delivers almost A\$600 million each year to Australian businesses through operating spend.

And it continues to generate about A\$5 billion each year in State and Commonwealth taxes and royalties, spreading the wealth from this landmark project to all corners of the country.

Third, it is important to note that it is not just construction and maintenance firms that are riding Australia's oil and gas wave.

Growing numbers of high-skilled, high value-adding services firms are also emerging to facilitate the rapid growth of our industry, offering a range of commercial, legal and environmental services.

And Australia's financial services sector is benefiting from an increased amount of activity linked to oil and gas expansion, including capital raising, debt servicing and other transactions.

This fact helps to de-bunk two myths that are raised by those seeking to portray the resources expansion as somehow harmful to our long-term prosperity.

Myth number one - that our industry is stifling the growth of other sectors by 'crowding out' investment opportunities.

And myth number two – that we are a low-value adding industry that doesn't support Australia's aspiration to be an innovative, high-skilled nation for the 21st century.

A quick survey of activity in Woodside's home-base of Perth helps put these myths to bed, and demonstrates the value-adding and up-skilling impacts of our industry.

Look around Perth today and you will find the offices of about 30 oil and gas companies, overseeing more than A\$90 billion of investment and about A\$20 billion of production from WA's oil and gas sector.

You will also find about 40 firms throughout the city dedicated to servicing the oil and gas sector, some of which have emerged as significant ASX-listed companies in their own right.

Leveraging off this critical mass of expertise, Perth is now emerging as a global solutions centre in oil and gas, with a focus on research and development, skills and industry knowledge.

For example, KPMG has established an Oil and Gas Centre of Excellence in the city, and just last month GE opened their Skills Development Centre in Jandakot to build local technology and expertise in the oil and gas industry.

Shell has also committed to establishing Perth as a centre of excellence for floating LNG technology.

In Woodside's case, led by our new Technology Group we are developing a number of new oil and gas technologies with wider application for our industry, and participating in research alliances with UWA and other local universities.

In short, nowhere else is there such a concentration of talent across a range of LNG technologies.

This offers a great opportunity for Perth to emerge as a true global centre for LNG innovation, with the capability to export high-value services and technology to international partners.

An Environment for Sustained Growth

So it is clear that the economic benefits from our oil and gas expansion to Australia, and particularly WA, are substantial, broad-based and long lasting.

And contrary to some perceptions, these impacts support rather than stifle the development of other sectors in our economy, as well as being high-value and innovative in their nature.

Having established these benefits, we all have an interest in ensuring that Australian oil and gas continues to grow strongly and sustainably into the future.

This is a shared challenge for industry, government and the wider community.

For while robust Asian demand for cleaner energy provides a solid platform for future growth, it does not guarantee sustained success in a more competitive global environment.

First and foremost, Australian oil and gas must strive for continuous improvement in the areas of safety, sustainable development and community contribution.

World-class performance in these areas ensures that we maintain our licence to operate and grow at home.

And they also distinguish us from international competitors who may not have our capabilities in sustainable development, making us a partner of choice for new opportunities both here and overseas.

With growing numbers of new entrants in the Australian oil and gas market, it will become increasingly challenging to improve our world-class standards in these areas. We will only be as strong as our weakest link.

Woodside understands that Australians do not just look to our industry to deliver economic benefits.

They also insist that we are good stewards of the resources that we develop, by ensuring that our operations are safe, environmentally acceptable and good for local communities.

For this reason Woodside oversees large social investment programs in our areas of operation, including significant investment into community infrastructure.

Another of our key focus areas is securing improved outcomes for Indigenous communities, not least through direct employment and training opportunities.

We also make substantial investments, measured in the hundreds of millions of dollars, towards environmental research and conservation programs that minimise the environmental footprint of our operations.

But we can not continue to deliver these investments if the economic fundamentals of our business are not sustainable.

Australia's LNG growth is occurring within an increasingly competitive global gas market, with more choice than ever for energy buyers in our region.

In this sort of environment, we can not be too sanguine about issues such as rising costs and stalling productivity that, if not addressed, may compromise our long-term success.

Our future depends on us being more innovative and more productive than the other countries lining up to supply Asia with the energy it needs.

While almost everyone accepts that this is the case, we are yet to see these sentiments translate into meaningful policy breakthroughs.

Australia was ranked 20th in the World Economic Forum's 2012 productivity league table¹, just behind the Republic of Korea and Saudi Arabia.

Another 2012 survey, conducted by the Economist Intelligence Unit, ranked Australia 50th out of 51 countries surveyed in terms of total factor productivity growth.

In case you were wondering, the 51st ranked country was Botswana.

To use a direct comparison against our US industry peers, the Business Council of Australia calculates that productivity on Australian resource projects is 30-35% lower than comparable projects in the US.

¹ Out of 144 countries surveyed

For the past decade, Australia's flat-lining productivity has been masked by record terms of trade that have continued to deliver boosts in personal and national income.

Now, with commodity prices retreating from historically high levels, our productivity gap will be exposed without an appropriate response from industry and government.

To close this gap, our industry must continue to find new efficiencies through innovation and technology, and the up-skilling of our people.

Beyond the focus on innovation that I mentioned earlier, Woodside also spends about A\$20 million each year in the direct training and education of our staff, including a range of graduate, internship and apprentice programs.

But we also require a supportive regulatory environment. This includes tackling key policy challenges around labour mobility and flexibility, infrastructure investment, and streamlined approvals processes between state and commonwealth jurisdictions.

At present, Australia is ranked 42nd globally by the WEF in terms of labour market flexibility, and 96th in terms of burdens caused by government regulation².

Despite recent steps towards streamlining environmental approvals for major projects, there are still examples of regulatory duplication that provide no net environment benefit, yet add cost and uncertainty to project timelines.

And of course, we also need stability in our fiscal and taxation regimes, which has not always been the case for the past several years.

Woodside's own research shows that current LNG projects in Australia are subject to an average effective tax rate of 70% of Present Value. And the majority of the tax take – typically about 80% - is paid before a project begins to turn a profit.

Under these conditions, investors need assurances that the goal posts won't be changed mid-stream. We need stable and predictable policy if Australia is to continue attracting large-scale long-term investments into our country.

Conclusion

² Out of 144 countries surveyed

In closing, let me re-state the main features of the economic benefits delivered to Australia, and particularly WA, of our oil and gas growth.

These benefits are significant in size, broad in their reach, and long-lasting in their impacts.

The value-adding and innovative nature of our industry helps to stimulate the growth of other sectors in our economy, helping Australia's transition to a high-skilled economy that can thrive in the Asian Century.

This picture is reinforced by the positive economic contribution of Woodside's oil and gas projects during their development and throughout their long operational life.

If, like Mikhail Gorbachev, I was asked to sum up the economic impact of our oil and gas expansion in one word, I would echo his response and say "good".

Given two words, I would part company with Gorbachev and say "very good".

The key for all of us is to ensure that it stays this way, by taking the actions needed to safeguard our global competitiveness and the sustainability of our operations.

If we can achieve this, the long-term benefits to the people of Australia, particularly those of us in WA, will be very substantial indeed.

Thank you.