

APPEA CONFERENCE & EXHIBITION 2014

**APPEA Chairman's Address,
Rob Cole**

Monday, 7 April 2013
Perth Convention and Exhibition Centre

Good morning Ladies & gentlemen,

On behalf of APPEA's Board, I welcome you to APPEA 2014.

For those of you I am yet to meet, my name is Rob Cole and I was elected to the role of APPEA Chairman last November.

It is one of many changes to have taken place - both within APPEA and within the oil and gas industry more broadly - since our last Conference.

I would like to specifically welcome and acknowledge:

- **Western Australia's Premier – Colin Barnett;**
- **Federal Minister for Finance – Mathias Cormann;**
- **Northern Territory Chief Minister – Adam Giles;**
- **Western Australia's Minister for Mines & Petroleum – Bill Marmion;**
- **Northern Territory Minister for Mines and Energy – Willem Rudolf Westra van Holthe;**
- **Federal Senator for Western Australia – Dr Chris Back.**

Thank you for joining 3,500 other delegates from more than 850 companies and more than 30 countries.

Our annual Conference is of course an opportunity for our 370 member companies to come together to share knowledge and establish and renew friendships.

We hope you find this event a rewarding opportunity to share your knowledge with colleagues, and to learn from theirs.

I also want to welcome you to Perth. As a member of the Committee for Perth, I am a big believer in this state and its capital city. Perth is blessed with beautiful open spaces, a relaxed lifestyle, and vibrant restaurants and nightlife.

I'm sure you will enjoy your time in our city.

It is three years since our last Perth Conference; and much has changed for our industry in that time.

Our industry is increasingly being acknowledged as one of the Australian economy's shining lights.

Deloitte Access Economics recently identified the gas industry as one of Australia's top five growth sectors. According to Deloitte, the oil and gas industry will soon make up **more than 3 per cent** of Australia's economy.

The Australian economy is in transition.

This structural change is becoming more apparent and being more widely acknowledged.

More people are acknowledging our industry's growth, as traditionally strong sectors start to very visibly shrink.

The political and cultural environment has also changed considerably.

Our industry is being challenged on a number of fronts, sometimes from misguided, politically-motivated activists.

Onshore and offshore activities that have been proven safe over many decades have at times been subject to campaigns of fear and misinformation.

Meanwhile, some groups are increasing calls for our industry to subsidise manufacturing operations by setting aside cheaper gas for some local customers.

Some groups are simultaneously calling for both restrictions on gas operations AND for gas reservation quotas.

It is indeed a confusing and fast-moving advocacy space in which APPEA now plays.

Of course – much has changed within our industry since we last met.

Rising development costs today cast doubts on our industry's ability to keep expanding within Australia.

And we today also face lean and hungry competitors, who enjoy significant cost advantages over us.

At a time like this, the role of APPEA – and the role of this event – is more important than ever.

In this era, public issues management has become part of APPEA's core business, on a par with our traditional strength in policy advocacy.

APPEA has become more active – at both state and federal levels – right across Australia.

We are also increasingly focusing on how individual policies affect the industry's international competitiveness.

At this point in our history, Australia needs a policy environment that encourages investment and enhances our ability to compete with other nations.

Economic contribution

I am proud of the contribution that the oil and gas industry has made to Australia's prosperity.

In 2011-12, Australian LNG cargoes earned almost \$12 billion in export revenue and put \$29.4 billion dollars into the Australian economy.

In the same year, the oil and gas industry also paid more than \$8 billion in tax.

With \$200 billion worth of new projects now under construction, the industry's contribution is set to grow even further.

This investment has already generated more than 100,000 jobs across the Australian economy.

But its contribution will grow even further.

Between now and 2018, Australia's LNG production will more than triple.

Growth in LNG production is expected to increase the value of Australia's LNG exports from around \$15 billion to almost \$60 billion over the same period.

Deloitte modelling shows that by 2025, building and operating these projects will have added more than \$260 billion to Australia's GDP.

And it will have boosted the oil and gas industry's total tax payments to more than \$12 billion a year.

That's looking 10 years ahead. But we can look even further, because these projects have long life spans and are underpinned by decades-long supply contracts.

Australia's oldest LNG plant – the North West Shelf Venture – shipped its first export cargoes in August 1989, almost 25 years ago.

The project partners are now exploring for more gas to extend the plant's operating life by another 20 years.

Such projects provide decades of income for numerous suppliers and flow on benefits across the economy.

By the time the Gorgon project starts operating its proponents will have spent more than \$20 billion on services and supplies from Australian businesses.

During its first three decades of operation, Gorgon is expected to spend around \$33 billion on goods and services supplied by businesses in the Pilbara region alone.

But the benefits of oil and gas production are felt not just in the nation's oil and gas hubs.

The benefits are felt in suburbs and country towns throughout Australia.

People across the country are benefitting from its use of contractors from all states of the nation; benefitting from the fly-in, fly-out workers who spend their wages across Australia; benefitting from the infrastructure and government services underpinned by our industry's tax payments.

Size of the prize

This industry is making a substantial and growing contribution to Australia.

But, we only have to read some of the stories in this morning's papers to realise that it can do even more.

By 2018, Australia will be producing some 85 million tonnes of LNG per year.

But between 2018 and 2025, Asia's demand for LNG will grow even further.

Wood Mackenzie forecasts that by 2025, the Pacific Basin alone will have 160 million tonnes of LNG demand that is not covered by existing or committed projects.

This is why McKinsey says Australia's LNG industry could attract a further \$180 billion in investment over the next 20 years.

McKinsey also says that investment on this scale would see GDP increase by 1.5 percent and generate tax revenues equivalent to nearly half the total federal deficit.

But we all know – that if this is to occur, Australia must first improve its productivity and competitiveness.

Competitiveness

There are many LNG projects on the world's drawing boards. Indeed, the number planned is more than twice what is needed to meet the next decade's forecast demand growth.

Our traditional LNG rivals remain strong and new ones are emerging in North America and East Africa. These competitors can build LNG projects for 20-30% less than Australian proponents.

In addition, the pricing dynamic is shifting. Given the current low United States domestic gas prices, the prospect of US LNG deliveries is resulting in calls for changes to traditional pricing mechanisms and for lower prices.

Against the backdrop of increased competition, it is clear that the Australian LNG industry must reduce costs and improve productivity if we are to maintain – let alone increase – our prosperity.

Our challenge is to re-examine our operational practices and seek ways to cut costs and enhance productivity.

The nation's policy and regulatory frameworks also need revision.

Change is difficult and it will always prompt resistance.

But we should recognise that the past two decades of Australian prosperity were built on policies that fostered flexibility, productivity and innovation.

These policies made Australia much more internationally competitive.

If we are to underpin the next wave of prosperity, Government must act decisively to sustain our competitive position, in several key areas.

- The inefficient and duplicative regulation that encumbers our industry and Australian businesses in general must be a priority.

APPEA is pleased to see this process is already underway at the federal level and in some state jurisdictions.

- APPEA believes government must also commit to efficient and effective science-based regulation of the oil and gas sector.
- But perhaps most importantly – the time has come for Government to meaningfully amend the workplace relations framework to help address rising development costs.

Our international competitiveness is under the microscope.

And high labour costs and low productivity are an unsustainable mix.

It is unfortunate, but “The IR Debate” of recent years has increasingly seen this critical policy area become a political football.

It has become some sort of proxy for the never-ending political fight, or the ideological divide.

But as an industry with \$200 billion in investment on the table; we say the time has come for a more mature discussion.

In short – APPEA has been heartened by the recent interventions by people such as Paul Howes – and our own Martin Ferguson.

It's time we had a grown up discussion regarding all that's at stake.

Of course, industry must also do its part.

We must develop a stronger focus on cost reductions and better project management.

Budgets must be brought under control.

We also need to continue to build on our history of technical and technological innovation.

Technology and innovation

We are one of the world's most technologically advanced industries.

Technological shifts have not just helped the oil and gas industry cut costs and become more competitive. They have also allowed the development of resources that were once considered unreachable or uneconomic.

We today drill offshore wells at depths once thought impossible. And recent innovations in horizontal drilling have made it possible to produce from coal seams and from shale.

In less than a decade, the Australian oil and gas industry has transformed coal seam gas from a fringe commodity to the feedstock for a \$60 billion export industry.

Australia also has the potential to exploit natural gas held in shale rocks in WA, the Northern Territory and South Australia. And it is pleasing to see the governments in these jurisdictions recognise this potential and support their onshore industries.

But the next major innovation in Australian oil and gas is likely to be floating LNG or FLNG.

Shell's Prelude FLNG project will develop fields 200km off the coast of WA and is due to start production in 2017.

The Prelude floating LNG plant is designed to withstand category five cyclones and will be the largest vessel ever built.

Floating LNG is exciting because it enables development of gas reserves that would otherwise be uneconomic because they are in deep water, or too far from shore, or both.

Bonaparte FLNG – off the Northern Territory – is aimed at developing the Petrel gas field, which was discovered in 1969 and Tern, discovered in 1971.

Similarly, Browse FLNG – off northern WA – could develop the Brecknock, Calliance and Torosa fields, the first of which was discovered in 1971. In September last year, the Browse Joint Venture selected FLNG as the development concept for these fields and the joint venturers decided to enter the BOD phase.

These various fields have been known for more than four decades, but until now developing them has been out of our reach.

Around the world, there are more than 15 FLNG projects at various stages of planning and development.

And here in Australia, FLNG will create jobs and tax revenue that Australia would not otherwise enjoy.

Floating LNG will create new well-paid, long-term jobs and position Perth as a major hub for a new industry.

As a member of the Committee for Perth, I see it as an innovation we should welcome.

Subsea First Response Toolkit

And innovation is not just confined to exploration and production.

We constantly seek opportunities for improvement across all aspect of our operations, including safety and environmental management.

It was two years ago – in Adelaide – when our industry’s leaders announced their collaboration to fund a world-class Subsea First Response Toolkit – or SFRT.

Designed to support subsea injection of dispersant to quickly and efficiently address the risk of any uncontrolled discharges from offshore wells, Australia's new industry-wide subsea solution is based in Perth and integrated into an international and regional response strategy.

I encourage you to take a look at the sections of the SFRT on display within the Exhibition Centre.

This exhibit not only demonstrates the industry's technological advancement, but also its commitment to continuous improvement and world's best practice in safety and environmental management.

Community engagement

Proactive initiatives such as the SFRT are important not just for our workers and for the Australian environment. They also help build public confidence in our operations.

We understand that our business is not sustainable if we do not operate responsibly, and public acceptance is a critical part of future success.

The industry and APPEA put enormous efforts into raising the bar on operational safety. Anything less is unacceptable.

But good communications and good relationships with our neighbours are also integral to our risk management and project planning.

Our industry's recent expansion has taken us into new regions – sometimes literally into people's farms and communities.

Of course, this prompts many questions and concerns.

Project proponents must communicate early and often, and as the industry needs to be open and transparent.

If we do this well, good relations with communities will underpin our future success.

It is worth noting that the regions where we are most accepted are those in which our operations have deepest roots.

People in these regions generally have a good understanding of our industry.

APPEA and its members must continue to work to improve other Australians' knowledge of the oil and gas industry, its operations and its benefits.

It's a huge job, but it's worth doing.

Conclusion

Ladies and gentlemen, the Australian oil and gas industry is going through a period of unprecedented transformation and growth.

Opportunities still await us.

And if both industry and government get it right, we can help extend our country's remarkable run of prosperity.

I hope you enjoy your time in Perth.

And I hope you very much enjoy your three days at APPEA 2014.

Thank you.