Australian LNG: Opportunities for Global Leadership

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Thank you David.

It's a great pleasure to be here at APPEA 2012, at a very exciting time for Woodside and the broader Australian LNG industry.

Just days ago the first cargo of LNG left our Pluto plant, on its way to foundation customers in Japan.

This marks the start of a new era for Woodside, with LNG from Pluto to provide a step-change in production and revenue for our company.

Such is our confidence in the project that Woodside has decided to add a fourth LNG tanker to our Pluto fleet, on a time charter of up to 20 years.

This ensures we can meet the needs of long-term customers, while also benefiting from strong demand on the spot market for Pluto LNG that we expect to persist well into this decade.

While we did not bring Pluto on line according to our original schedule, it remains a great achievement to have gone from discovery in 2005 to first LNG just seven years later.

And perhaps it's a good omen that first production from Pluto takes place in 2012, the 70th anniversary of work beginning on another petroleum project named Pluto.

Military buffs in the room may know that I am referring to the Pluto oil pipeline, which supplied the Allied armies on the continent following the D-Day landing.

This remarkable feat of engineering, which saw more than 100 kilometres of pipeline laid across the English Channel in total secrecy, was critical to the success of the Allied invasion.

As US army commander General George S. Patton said at the time: "My men can eat their belts, but my tanks gotta have gas".

That quote is a great reminder that even in extreme circumstances, energy really is one of humanity's most basic needs.

In fact, the technology used on that Pluto pipeline became the forerunner of the flexible pipelines now used throughout the offshore oil and gas industry.

But enough of the history lesson. What I would like to talk about is the future of Australian LNG, and our capacity to emerge from the current expansion phase as a true global leader.

If we review events since APPEA's last annual conference in Perth 13 months ago, there is no question that Australia is at the centre of global LNG expansion.

In that time not only has Pluto LNG come on line, but another four greenfield LNG projects – with combined capacity of more than 25 million tonnes per annum – have been sanctioned.

No LNG project outside of Australia has taken a final investment decision during this time.

As we often hear, on best-case projections Australia may rival Qatar as the world's largest exporter of LNG in as little as six or seven years.

As you are all aware, LNG expansion in Australia is underwritten by a robust demand profile within our region, both from legacy North Asian importers and Asia's major emerging economies.

The five biggest LNG importers in the Asia-Pacific – Japan, Republic of Korea, Taiwan, China and India – accounted for almost 60% of global LNG demand in 2010.

This proportion increased further in 2011 as Japan lifted its LNG imports by 9 million tonnes following the Fukushima nuclear disaster, with expectations of a further increase this year.

As we meet here today there are 17 LNG receiving terminals being constructed right across the Asia-Pacific, and a further 18 proposed to be built and operational before the decade is out.

And no country appears better placed to meet Asia's long-term LNG demand than Australia.

However, we all know there is a lot of water to go under the bridge before we achieve those forecast production figures I just mentioned.

Bringing mega-projects off the drawing board and into production is a difficult task, requiring premium capabilities across the LNG value chain.

Let's not forget that Pluto is the first producing LNG facility in Australia for six years, and one of only two worldwide that will come on line in 2012.

Furthermore, we should be wary of equating the tag "world's largest LNG exporter" with "world LNG leader".

One does not necessarily follow the other.

I believe the goal that Australian LNG should set itself for the decade ahead is to be recognised as a global leader in all facets of our industry.

This isn't setting a goal for its own sake. It is absolutely necessary if Australia is to remain a premium LNG supplier in a world of increasingly diverse and competitive gas supply.

In terms of new supply for the Asia-Pacific, the two key questions out to mid-decade and beyond are: whether Qatar will divert more North Atlantic-bound LNG; and how quickly the shale boom in North America will translate into LNG exports.

There have been interesting developments on both of these fronts recently.

Qatar is showing a desire to direct more LNG into our region. It has recently finalised agreements for additional sales to Republic of Korea and Taiwan and is in discussion with buyers from other markets.

We have seen Kogas of Korea and GAIL of India become the first Asian buyers of US LNG, signing long-term sales agreements.

The industry is also evolving in other ways.

There is increasing use of short-term trading to complement long-term sales. And non-traditional LNG business models in the US have given rise to alternative pricing in some sales contracts.

So there is no doubt we are facing a more competitive LNG market in our region.

However, I don't foresee these developments undermining Australian LNG projects. And I expect the oil-link will continue to underpin the majority of long-term sales into Asia.

The ongoing attraction of premium Australian LNG was shown by the strong interest in Woodside's recent offer of a minority equity stake in our Browse LNG Development.

On top of the US$2 billion equity offer from Mitsui-Mitsubishi, or MIMI, we also agreed conditionally on a sales and purchase agreement of about 1.5 million tonnes of LNG a year from Browse, at a price in line with traditional Asian pricing for conventional LNG.

This offer promises to add further value to Woodside's already strong financial position, as reflected in Moody's decision last week to reaffirm our credit rating and improve their outlook on our company.

So what do I mean by the term 'global leadership' as an aspiration for Australian LNG?

Does 'leadership' mean being first across the line, getting our projects off the ground as soon as we can and overtaking Qatar as the biggest LNG exporter?

Or is it about demonstrating the qualities we more commonly associate with leadership: vision and long-term planning; values and integrity; and commitment to excellence in everything we do?

Clearly, it is the latter. These are the qualities that we should test ourselves against, as they will position our industry for sustained success beyond the current period of expansion.

Our shared vision must be to ensure Australia's hard won reputation for LNG quality, reliability and safety is enhanced in the decade ahead.

As the number of LNG operators in Australia increases, we will only be as strong as our weakest link in these areas. New entrants must bring their very best game to ensure standards are maintained, not diluted.

It will take a lot of long-term planning and significant resources – from both industry and regulators – to achieve this vision.

But if we succeed, our investment will be more than repaid through the establishment of a premium 'Australia inc.' brand from which we all benefit.

In contrast, with the legacy of Montara still being felt, we simply cannot afford another major incident in this crucial expansion phase.

Global leadership will also require Australian LNG operators to be values-based in our decision making.

Integrity is crucial here. Fulfilling our commitments, and doing the right thing by our people, the communities in which we operate and the environment.

These should be non-negotiable elements of Australian LNG's business model, and never compromised for reasons of cost or schedule.

Everyone here today is aware that Australia is a high cost LNG environment, exacerbated by a strong Australian dollar and a tight skilled labour market.

A recent survey by Hays Oil and Gas found that Australian oil and gas wages were the second highest in the world, and were more than double the global average.

Our businesses also carry costs associated with major social investment programs and community partnerships, and complying with rigorous environmental and safety requirements.

Factoring in such costs leaves us with less margin for error on project delivery, and means we simply can't compete dollar-for-dollar with some of our competitors.

But they are also features of our industry that we can be proud of. Offering competitive wages and conditions to our people, and making a positive, long-term difference to local communities – including of course Indigenous Australians.

As our numbers grow, LNG operators in Australia should all continue this values-based approach to our operations, ensuring we meet the growing expectations of government and the broader community.

This is what leadership is all about – having a vision, and bringing others along with us.

The disadvantage of operating in a high-cost environment can also be offset by a commitment to excellence across the LNG value chain.

Matching premium price with premium performance. This is how Australian LNG will continue to thrive in a more competitive supply environment.

If we want to be leaders, we must be creative and stay ahead of the competition. Technology and innovation are crucial to this.

Right now we are in a position of strength in this regard. Australian LNG is making good use of advances in modular construction, and leading the way in developments such as coal seam gas-to-LNG and floating LNG.

Our challenge is to ensure that this is still the case 10 years from now, with these developments having had a seamless transition into production in Australia.

Just as importantly, Australian LNG must be at the forefront of new technologies that emerge in the future.

We compete in an industry in which technology is constantly evolving, so the benefits of being a first-mover are significant.

If Australian LNG is not able to lead this process, or at least be among the quickest to adapt, we risk losing our competitive edge.

For this reason, Woodside recently announced the creation of a new technology group, responsible for identifying leading-edge technologies that we can apply to our engineering and geoscience activities.

With the advances our companies are already making in this area, I believe Australia has the potential to emerge as a true global centre for LNG innovation in the near future.

Under this scenario, we will not just be exporting our gas to customers, but also exporting high-value adding technology and services to international partners.

These are just a few things that Australian LNG can do to support our aspirations for global leadership. But industry is only part of the picture.

World’s best performance from Australian LNG is only possible if the right policy settings are in place.

Woodside and our peers benefit enormously from Australia’s low sovereign risk profile and open investment regime.

Australia is a place that major oil and gas companies want to do business.

But we can’t take this for granted in an increasingly competitive global gas market.

Our policy makers must ensure that new regulation does not risk the cost-effectiveness and competitiveness of our industry.

What Australian LNG needs most of all from government is consistent and predictable policy.

We are in a business that is highly capital intensive, requiring long periods of investment before any returns are seen.

Thinking back to when Woodside took the decision to develop Pluto LNG, who at that time could have foreseen the acceleration of project costs, or the shale gas boom in the US, let alone a global financial crisis?

Government's role is to ensure that in those areas we can control, regulation supports the quality and competitiveness of Australian LNG.

This includes skilled migration and industrial relations policies to promote productivity.

And environmental regulations which help to maintain Australian LNG's superior record, but do not create inefficiencies.

In this phase of high costs and increasing international competition, Australian LNG is about to begin operating under a carbon price regime that not one of our major competitors will be subject to.

We must ensure that this burden is not added to by overlapping carbon reduction and energy efficiency schemes still operating at the state level in Australia.

On top of this, we must ensure that environmental and safety case approvals for petroleum activities in Australia do not create unnecessary burdens.

Let me be absolutely clear that I am not questioning the rigorous environmental and safety standards that we must adhere to in Australia.

As I said before, these high standards are a defining feature of our industry, and required for global leadership.

But we must ensure this regulation is as efficient as possible, avoids duplication, is transparent to all and achieves the intended environmental and safety outcomes.

To be blunt, industry should expect the same world-class performance from governments and regulators as we expect from ourselves.

Just last month, the Business Council of Australia (BCA) again identified government approvals as a priority for future competition and regulatory reform.

For example, the BCA found there was still double handling of environmental assessments that did nothing to improve environmental outcomes, but did risk the cost-effectiveness and competitiveness of projects in Australia's investment pipeline.

Industry and government must continue working together to ensure such regulations do not undermine our competitiveness during this important expansion phase, and support our global leadership aspirations.

So that is what is required for Australian LNG to attain a position of true global leadership.

Vision and long-term planning; a values-led approach; and excellence across the LNG value-chain, with a focus on innovation.

In my mind, these are just as important as meeting project schedules and budgets.

And they must be supported by the world's best policy settings, to ensure we remain a supplier of choice in a more competitive global gas market.

Being a global leader not only safeguards the competitiveness of LNG projects in our own backyard.

It also means Australian LNG companies will be recognised globally as partners of choice, opening up new opportunities in established and frontier gas provinces overseas.

These realities will shape Australian LNG's future, and I can tell you that they are already shaping Woodside.

We have set our strategic direction to be world-class in upstream oil and gas, with a focus on maximising our Australian business and also pursuing global upstream growth.

And we have set as one of our highest priorities becoming a values-led company that is a partner of choice, both within and outside of Australia.

In a demonstration of this, we have established a new partnership to bid for exploration blocks offshore Cyprus, in the promising Eastern Mediterranean gas province.

This partnership combines Woodside's core skills in deepwater exploration and LNG development with partners that have strong local knowledge and connections to European gas markets.

Of course, Australia will always remain Woodside's LNG foundation.

A foundation that has demonstrated great capabilities, a sound global reputation, and the best possible location from which to capitalise on robust energy demand in the Asia-Pacific.

Australian LNG is now in an important phase of project delivery that will see a game-changing expansion of our LNG export capacity.

But we must look beyond the numbers to judge whether Australian LNG will be a true global leader in the years ahead.

We must be honest and transparent about the areas where we need to get better, and be willing to work together to make improvements.

The growing number of LNG operators in Australia must all commit to the very highest standards, building upon our success to date to establish a premium LNG postcode in Australia.

If we can achieve this, the rewards for all of us – industry, government and the Australian community - will be very great indeed.

Thank you.