

UBS Superannuation Conference: 'Australia's most critical inflection point since 1983'

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Thank you Gordon and good afternoon everyone.

It's a pleasure to be speaking at today's event, and I congratulate UBS on facilitating today's discussion.

I particularly welcome the main topic of today's forum, inviting us to consider whether our economy has in fact reached its most critical inflection point since 1983.

After all, who among us wouldn't like to turn back time to 1983, when our bodies were a little leaner, our heads of hair a little thicker, and no such thing as an iPhone to interrupt our weekends.

At that time I was enjoying the largely carefree life of a university student, being in the final year of my engineering degree at Monash University.

Although it's probably best if we forget the music from that year – indeed it was so bad that 'Australiana' by Austen Tayshus spent a full eight weeks at the top of the Australian charts.

But seriously, when discussing the economic challenges we now face, and determining the best policy responses, it is very useful to reflect on the important economic reforms of the 1980s.

Unfortunately, too much of our public debate at the moment is short-term in its tenor, lacking in historical perspective and prone to both exaggeration and partisanship.

As we all know, this is particularly the case in the lead-up to a federal election.

New economic policies are either wrecking balls or revelations, depending on which side of the political fence the commentator sits.

Often the truth lies somewhere in between, with attempts at genuine economic reform usually navigated through a torturous path of compromise, which in turn dilutes the long-term impact of these policies.

In contrast, there can be little doubt about the positive long-term benefit of the decision in December 1983 to float the Australian dollar on world money markets.

From that point on there really was no turning back for our economy.

Accompanied by the decision to suspend virtually all the existing controls that governed foreign exchange movements in Australia, the float of the dollar locked our economy into that of the wider world.

It ensured that Australia's capital markets, and the broader economy, learned to survive and thrive in a global marketplace.

The float is a great demonstration of the saying that while failure is an orphan, success has many fathers.

Today we still have the two key architects of the float, Bob Hawke and Paul Keating, arguing over who should take the lion's share of the credit for this decision.

And the man commonly seen as the villain of this drama, then-Treasury Secretary John Stone, continues to reject the Hawke-Keating depiction of him as a key opponent of the reform.

Indeed Stone is on the record as describing the float as "the most important single step in economic policy to be taken by any Australian government in the post-war period".

If we fast-forward three decades to today's main topic, we have clearly arrived at another important juncture for the Australian economy.

We have reached the end of a commodity cycle peak which had stretched for an extraordinary length of time.

This on its own should not be viewed as an existential threat to Australia's economic prosperity.

Most of us have been around long enough to know that commodity cycles peak and trough, and it was only a matter of time before we saw prices ease off and have flow-on impacts to other areas of our economy.

Despite this cyclical fall in record-high commodity prices, long-term demand for key Australian resources, not least our vast reserves of natural gas, remains robust.

The complementarities we enjoy with the rapidly developing economies on our doorstep – not just in resources but in areas such as agriculture and services - provides us with an important competitive advantage.

But this is an advantage that can be undone if we do not resolve some systemic challenges to Australia's long-term economic prosperity: such as rising cost pressures; stalling productivity; insufficient investment in skills and innovation; and regulatory red tape.

All will require bold action to resolve.

It goes without saying that a company such as Woodside is not immune to these challenges.

Our producing assets are overwhelmingly Australian-based, and are thus directly subject to trends that resonate throughout the broader Australian economy.

At the same time, Woodside competes in a global marketplace undergoing significant change. International demand for our product is growing strongly, but this is balanced against an ever-increasing number of supply sources.

It is thus more important than ever for Woodside, just as it is for so many Australian companies, to have a strategy that enables us to stay ahead of the pack in an increasingly competitive environment at home and abroad.

Within the context of the changes currently taking place in our industry and the broader Australian economy, I would like to outline the actions that Woodside is taking to sharpen our competitive edge and remain a partner of choice.

In particular, I will spend some time outlining Woodside's approach to capital management, which I know that many in this room, as representatives of funds with significant shareholdings in our company, take a close interest in.

In doing so, I hope to demonstrate that Woodside is well positioned to continue delivering growth while also returning superior value to those who invest in our company.

Responding to a changing environment

We've all heard the well-worn saying that "when the facts change, I change my mind". Usually attributed to John Maynard Keynes, it has become a favourite saying for politicians accused of shifting their position according to the direction that the political winds are blowing.

Although a truism, it's a useful concept to have in our mind when considering how our organisations should adapt to changing circumstances.

Confronted with a changing environment, we can opt for gradual, measured responses or decide on a more fundamental change in direction.

While more disruptive and difficult to implement, sometimes the more fundamental change is necessary.

For example, in the decades leading up to the float of the dollar, a number of variations at pegging the Australian currency were attempted: pegging it to the pound sterling; the US dollar; a trade-weighted index; and finally the so-called 'crawling peg'.

But by the early 1980s it had become clear that none of these methods would provide Australia with sufficient macroeconomic stability in an increasingly globalised economy.

Regardless of the formula used, the blunt truth was that it was an anachronism for the Reserve Bank Governor and several senior bureaucrats to meet each morning and determine themselves the value of the Australian currency.

A more fundamental change was required, and consequently a bolder decision taken.

In the same fashion, a company like Woodside must constantly examine its processes and culture to ensure they remain the very best fit for a changing operating environment.

Woodside is fortunate in having a base of world-class producing assets that deliver reliable production for our customers and value for our shareholders.

Indeed it's interesting to think that when the decision to float the dollar was taken, we were in the very final stages of completing the two domestic gas trains at the North West Shelf, which 29 years later continue to supply the majority of WA's gas needs.

With more than 12 months of production at Pluto LNG behind us and a number of growth opportunities going forward, we are well placed to deliver superior value into the future.

Nonetheless, we are acutely aware that in a rapidly changing marketplace, we must continue to evolve and keep looking for ways to enhance our competitive advantage.

In some cases gradual, measured changes will suffice. In other areas a more significant shift in our thinking is required.

The one thing we know for certain is that standing still is not an option.

Because given the pace at which the Australian and global LNG markets are developing, standing still actually means falling behind.

With a number of multinational oil and gas companies establishing a presence in Woodside's hometown of Perth to take forward major new LNG projects, we have a great opportunity to measure ourselves against the rest of our industry.

For Woodside, this has been the equivalent of receiving a free gym membership. For years we were working out by ourselves at home, where it can be tempting to think that you are tracking along ok.

In contrast, nothing focuses your efforts like arriving in a gym full of big bodies and seeing very clearly the areas where you need to improve.

This same analogy can apply to Australia's LNG industry as a whole, with new sources of potential supply emerging around the world.

The first North American LNG export project took a final investment decision last year and other projects will follow, although significant uncertainty remains around project schedules and likely export volumes.

East Africa also has potential to be a significant new supplier in the next decade, while Russia is making clear its intention to supply gas to major Asian markets.

In this competitive Australian and global environment, it made sense for Woodside to adjust our strategic direction, which we introduced to the market in early 2012.

We recognised the need for a strategy that makes the most of our world-class capabilities and provides us with a clear, disciplined approach to generating new value.

In response, we adopted a strategy which involves maximising our core assets, commercialising our growth opportunities and broadening our portfolio with opportunities that leverage our capabilities.

We made good progress against this revised strategic direction in 2012 and the first half of 2013.

But to ensure we lock in this strategy for the long-term, we have also made some fundamental changes to the way we approach our business.

In short, this means bringing in the right people, organisation structure, processes and systems to further strengthen our capabilities in project management and execution.

This includes a review of construction-led engineering and design to streamline fabrication processes.

We have strengthened our marketing and commercial capabilities by building dedicated teams in these areas.

We've also brought new talent into Woodside's exploration team and strengthened our new ventures group, which has already led to new opportunities in Israel, Myanmar and most recently Ireland.

Technology is also a key element of our new approach. We are making a renewed commitment to be a leader in technology and innovation, not only in Australia, but internationally.

We see technology as delivering not only incremental improvements, but potentially a fundamental shift in the cost profile of Australian LNG projects through utilisation of FLNG, lean construction technology and other methods now under development.

Just as importantly, we have embarked on a significant program of cultural change that we are confident will set Woodside up for long-term success.

After completing a major internal review of organisational effectiveness and workplace culture at Woodside, we identified several areas for improvement that led to the development of the Woodside Compass.

The Compass differentiates Woodside as a values-led company, linking together our core values, vision, mission and strategic direction.

This values-led approach, added to our recognised technical capabilities, ensures that Woodside remains a partner of choice in a crowded industry.

We operate in a world of increasingly remote energy reserves and complex reservoirs; in which we face rising cost pressures; and in which we must meet rising expectations towards environmental protection and community contribution.

In this challenging environment, it becomes increasingly difficult for any company to go it alone. We understand that quality partnerships across the value chain – from our co-venturers and governments, to our contractors and customers – are necessary to deliver long-term value.

Capital Management

Speaking of value, I would now like to spend a few moments outlining Woodside's approach to capital management.

You will have seen that in April this year we announced a special dividend of US 63 cents per share, together with a targeted dividend payout ratio of 80% of underlying net profit after tax that we expect to maintain for several years.

For investors in Woodside, the \$64 million question is of course: how do we sustain these increased dividends while also securing new growth opportunities?

It will require careful management, but we are confident that our current strategy enables us to continue growing while also supporting an increased payout ratio for several years at least – subject of course to significant new capital investments, or if business performance or external circumstances change materially.

We understood the way that some investors and analysts would interpret the decision in April not to proceed with the proposed Browse development at James Price Point, and then return capital to our shareholders.

But those who now consider Woodside to be ex-growth are mistaken.

Browse is a world-class resource and it will be developed – but only at the right time, in the right way, to ensure maximum return to our shareholders.

We are now working with the Browse joint venture on selection of a new development concept to enable the timely and economic commercialisation of these resources.

In fact, far from prompting us to close the door on future growth, Browse has reinforced the need for Woodside to find additional growth avenues, particularly as Australia's cost structures become increasingly challenged.

Like any good sporting team, the key for us is finding the right balance between offence and defence.

On the one hand, our strengthened exploration and M&A teams are being proactive, or 'offensive-minded', when it comes to screening new opportunities.

We have well and truly opened the aperture in terms of locations we are willing to consider exploring and operating in, and moving early to secure new opportunities in emerging and frontier basins.

We are looking to diversify, spread the risk and extend ourselves further along the value chain where appropriate.

But we are also being very disciplined, or more 'defensive minded', when it comes to selecting those opportunities on which we actually pull the trigger.

What that means in practice is that we are only pursuing those opportunities that have a clear line of sight between our existing capabilities and future value.

We are not for the moment looking at opportunities that, in order for us to take forward, require us to re-invent ourselves or acquire capabilities well outside our existing sphere of expertise.

So if you look at those opportunities outside of Australia that we have disclosed to the market – Leviathan, the Rakhine Basin offshore Myanmar, the Porcupine Basin offshore Ireland, British Columbia – you will see an obvious fit with Woodside's world-class expertise in areas such as LNG development and deepwater exploration.

You will also see that we are pursuing a well balanced portfolio not just in terms of location but also by virtue of resource size and development timeframe.

We are also taking equity stakes in these developments appropriate for a company of our size, allowing us to manage project risks and ensure that we keep our balance sheet and credit rating in good order.

For a company such as ours, the opportunity to buy-in to a resource like Leviathan is a once-in-a-decade opportunity.

It is one of the largest recent gas discoveries worldwide, ideally located to produce gas for Israel's domestic market and export to Asia, Europe and neighbouring pipeline customers.

We are pleased that the Government of Israel maintained its domestic gas reservation for Leviathan at 50%, despite an aggregate increase in reservation volumes for all fields to 60%. This delivers on the original policy setting for Leviathan on which Woodside based our investment.

With the Israeli High Court to rule as early as today on the government's process in determining this policy, we look forward to this issue being resolved so we can finalise our agreement with the Leviathan joint venturers.

Turning to our maturing exploration opportunities in Myanmar, we have successfully gained entry into two blocks and we are looking at involvement in future bidding rounds.

Like Israel, Myanmar is also attractive by virtue of its proximity to growing energy markets and its own need for domestic gas.

Our early entry into this rapidly developing country leaves us well placed to consider further value-creating opportunities such as regasification terminals or power projects, if we decided to follow such a path.

In terms of additional growth prospects, you will have seen that we remain active in the exploration permit market.

We have now completed our basin studies which put us in a good position to consider new opportunities, so continue to watch this space.

Before leaving this topic, I should emphasise that Woodside is not reducing its focus on our Australian businesses, which remains fundamental to our cash flow.

We are actually taking forward a lot of good work on our existing Australian asset base, to ensure these continue to deliver value for years to come.

Major refurbishment work on the Karratha Gas Plant and our North Rankin and Greater Western Flank activities are ongoing. We also have the Vincent FPSO in dry dock in Singapore, and are looking for debottlenecking opportunities at Pluto.

So Woodside is pursuing a broad range of value-creating avenues, sitting within a clearly defined strategy to give the market confidence that each new opportunity has been carefully assessed for its capacity to deliver superior shareholder returns.

I am very confident that this growth strategy, combined with the focus areas I mentioned earlier such as technology and innovation, and further beefing up our project management and marketing expertise, will enable us to progress our growth projects and maintain increased dividends for several years.

Conclusion

In closing, we are working very hard at Woodside to continue laying the foundations for long-term success and remain a destination of choice for investor funds.

Our company has experienced a broadly similar path to that of the Australian economy since the floating of the dollar and other key economic reforms were implemented 30 years ago.

A successful and relatively benign period of expansion in which there have been ebbs and flows, but in which the good periods have comfortably outweighed the bad.

In both Australia's case and Woodside's, this period of success has not been due to good fortune alone. It has been the result of far-sighted decisions from which we continue to enjoy the benefits today.

Most importantly, for both Woodside and the broader Australian economy, the positive legacy of decisions taken years ago does not guarantee our future in a more competitive world.

In recent years the case could be made that, in some key areas, Woodside and our industry peers have been incrementing rather than truly innovating.

I would argue that the same thing could be said about Australia's economic policy makers.

In an increasingly competitive global environment, and with the peak of the commodity cycle behind us, the time for innovative and bold approaches has well and truly arrived.

As we face up to future challenges, there are many lessons we can learn, and much inspiration to be drawn, from the brave decision taken 30 years ago to float the Australian dollar and take our country once and for all into the embrace of a dynamic global economy.

Thank you.