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"Competitiveness of the Australian gas industry."

Speech by

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CHECK AGAINST DELIVERY

Thank you for this opportunity to speak to you.

Today, I will discuss the Australian oil & gas industry and our national economy.

I will outline the industry's widely underestimated contribution to our national prosperity and how in coming years it can contribute even more to our economic security.

I will discuss how the global economic environment is becoming harsher for Australia and how our country's business environment is now in transition.

And I will outline why industry and governments in Australia must adapt.

Our country has experienced a remarkable run of economic growth – more than two decades without a recession.

And Australia's gas export industry has become one of Australia's most important.

It is experiencing unprecedented growth and transformation, driven by Asia's insatiable demand for clean, safe, and reliable energy.

Yet, I think the LNG story is still poorly understood in Australia.

Too few people – and too few political leaders – recognise the benefits to Australia are enormous.

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.

The industry's contribution is set to grow substantially because $200 billion worth of new projects are today under construction.

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

Within a few years our country will overtake Qatar as the world's leading LNG exporter.

And it is expected that by the end of the decade, the industry's annual tax revenues will be more than $12 billion.

So we have an industry that is already a great success story.

But Australia's LNG industry also has the potential for a further $180 billion in investment over the next 20 years. This would create up to 150,000 new jobs.

In WA alone, Gorgon could have a fourth production train and new projects, including Browse and Scarborough, are being considered.

But if Australia is to secure the next wave of LNG development, then we must adapt to the macroeconomic changes afoot.

When APPEA last hosted its annual conference in Perth only three years ago, the future for LNG investment was all blue sky.

Construction of Gorgon was underway.

Prelude, Wheatstone and Ichthys would all receive final investment decisions within the year.

Browse was being planned as an onshore LNG project.

Next month the APPEA conference returns to Perth. And things look very different.

- International competition is growing;
- Australia's international competitiveness is declining; and
- Our capacity to build seven LNG projects on time and on budget is under question.

Advances in technology have caused a surge in North American gas production, and massive gas fields have been found off the coast of East Africa.

Companies operating in Canada, the US, Mozambique and Tanzania are advancing plans for LNG projects targeting our markets.

Last year, a McKinsey report showed Australian costs for delivering LNG to Japan are up to 30 percent higher than competing projects in Canada and Mozambique.

Rising costs in this country mean onshore development is no longer viable for Browse, and major expansions of existing projects are no longer as certain as they once seemed.

There is a very real danger that Australia may be pricing itself out of the global LNG market.

Here's a sobering point – forecast global demand for LNG is 470 million tonnes per annum by 2030.

More than 200 million tonnes in new capacity will be needed to meet that annual demand.

But plans exist for more than double the number of LNG projects needed to meet that demand.

Clearly not every project on the world’s drawing boards will proceed.

Competition for global capital will be fierce.

But it’s not just the LNG industry that is finding things tough.

Australia’s terms of trade are falling.

Our manufacturing, processing and tourism industries are struggling.

At such a time we need to reflect on the fact that Australia has had almost 23 years of uninterrupted economic expansion.

And we need to reflect on the fact this success has been built on a shift from protectionism - towards open markets.

Australia became much more internationally competitive thanks to good policies that encouraged productivity and innovation.

I am proud to have had a role in helping develop and implement the reform agenda, both as President of the ACTU and as a Federal Minister.

It saddens me that this legacy is now under threat.

Perhaps our success has made us complacent.

Certainly, many of our leaders and commentators have forgotten the lessons of history.

Yes, there are specific policy changes that would help the oil and gas industry develop our nation's petroleum reserves for the benefit of all Australians.

But there is no point in making reforms in one sector, if we allow backsliding across the wider economy.

There are increasing signs that Australia is regressing towards a new phase of inefficient regulation and of increasing government intervention in business.

Veteran manufacturing sectors have returned to calls for protectionism.

A radical environmental movement has arisen that despises market economics. It is adept at creating fear campaigns to advocate for new layers of unnecessary regulation.

Regulatory processes for approving projects are becoming increasingly inefficient.

And there are serious weaknesses in the development of a skilled workforce and support industries' supply capacity.

This is not the time for anyone to be reverting to a mid-20th century mindset, or adopting the view that somehow we can integrate with the global economy on our own terms.

When the terms of trade worsen and our competitors grow stronger, there is only one way to maintain – let alone increase – our prosperity.

We must improve our productivity and reduce the costs of doing business in Australia.

Australia’s future economic strength will not be underpinned by the propping up of unsustainable sectors or by any government subsidy or handout.

Strength will come through policy and reform that makes it easier for businesses to invest with certainty.

Therefore, we must:

- reduce red and green tape;
- commit to market-based policy; and,
- re-evaluate how our workplace relations framework influences access to labour and how it affects the economic viability of new projects.

The oil and gas industry is regulated by around 150 statutes and more than 50 agencies.

And its regulatory burden continues to grow.

The Productivity Commission has estimated that unnecessary regulation could be costing Australia about $60 billion – or 4 per cent of GDP – each year.

Less intrusive regulation will stimulate business activity and increase revenues from tax and royalties without diminishing environmental standards.

The Federal Government’s move to establish a framework for a ‘one-stop-shop’ to streamline environmental approvals processes is a sensible reform.

APPEA is also pleased that most Australian governments have rejected calls for the protectionist policy that is gas reservation.

Policies that manipulate gas markets to deliver non-commercial outcomes deter investment in gas operations.

This type of subsidy does not just harm the oil and gas industry, but it also hurts residential, commercial, and industrial customers.

I am also pleased that the national mood appears to be swinging towards sensible industrial relations reform.

High labour costs and low productivity are an unsustainable mix.

And therefore - elements of the Fair Work Act must be looked at.

Change is never easy. It can be disruptive. And it is usually resisted.

But unless we are prepared to see unemployment rise and living standards fall, we must improve productivity.

Here in WA, the activities of the MUA with regard to the current Vessel Operator Enterprise Bargaining Agreement are particularly short-sighted.

The way in which that particular union leverages its bargaining position threatens the economic prospects of its members, and the state as a whole.

The manner in which the union conducts its industrial agenda will have major impacts on productivity and it demonstrates the need for a clear-eyed assessment of the Fair Work Act with regard to:

- The continued ratcheting up of wages and conditions under greenfields agreements – with the last agreement outcome becoming the starting point for negotiations over the next one

- The scope of matters that can be included in enterprise agreements and over which legally protected industrial action can be then be taken. This has meant restrictions in some circumstances over the use of contractors and other productivity enhancing measures; and,

- The nominal life of enterprise agreements. At typically three-four years, this is far too short for major projects like those in the LNG sector. It effectively means the renegotiation point often coincides with a critical point in the project life.

As a country, we have to be hungry for investment and the jobs that go with it.

We need to think about how our workplace relations system can help attract that investment.

And it is in this context that the current debate about the reintroduction of the Australian Building and Construction Commissioner should be conducted.

Rather than seeing the ABCC as a tool that allows one side to get an upper hand over the other in some never-ending ideological skirmish, it should be seen for what it was: a mechanism that holds **both** sides to account and which can help deliver projects on-time and on-budget.

As our international competitiveness is put under the microscope, our priority should be to keep people employed by ensuring we are attractive to investors – both domestic and international.

As the son of a bricklayer, I know a thing or two about the building industry. But it is time that some in today's union leadership recognised that their members' long-term interests are aligned with their long-term job security.

Certainly, the objectives of the FWA need to be examined to make sure they truly reflect the need for Australia to be internationally competitive.

For major capital projects, we may need to look at developing special purpose-built provisions.

This could include a new category of agreement that will give project developers more long-term confidence about their workforce costs and the capability of attracting those large investments that hang in the balance.

The Government has tabled some changes to the FWA to bring into effect their pre-election policy commitments.

While the changes are a step in the right direction, they are really quite modest. I would urge the Government to keep an open mind on the need for further reform in this area.

APPEA acknowledges that as the representative body of the oil and gas industry, it needs to be prepared to do more than talk about the problem - it also needs to develop some proposed solutions.

This is a matter on which APPEA – in conjunction with like-minded groups such as the BCA and the Minerals Council – will be doing further development work in the coming months and you will be hearing more from us over that timeframe.

A workplace relations system that drives investment to other countries is in nobody's interest; certainly not those union members and their families who will be bargaining themselves out of a future.

We must change our policy frameworks and our business environment.

We must do new things or do old things in better ways.

And we must innovate – both in business practices and in technology.

The oil and gas industry has a long history of innovation.

It is one of the world's most technologically advanced industries.

Technological shifts have helped this industry find and develop resources that were once considered unreachable or uneconomic.

In recent years, innovations such as horizontal drilling have enabled the production of gas from shale rocks in the US and from coal seams in Australia.

Less than a decade ago, it was widely believed that Eastern Australia did not have enough gas.

Plans were being developed to pipe gas from Papua New Guinea to Queensland.

But some pioneering onshore gas companies said they could produce gas from coal seams in Queensland.

Not only has the PNG gas pipeline been scrapped, but the state is now developing a $65B export industry.

Australia also has the potential to exploit natural gas held in shale rocks in WA, the Northern Territory and South Australia.

And I am pleased to see that the governments in those jurisdictions support their onshore gas industries.

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

Shell's Prelude FLNG project will develop fields 200km off the coast of WA.

This will be the largest vessel built in human history. It is designed to withstand category five cyclones. That's what I mean by innovation.

The FLNG innovation is exciting because it enables development of reserves that would otherwise be uneconomic.

It's true that FLNG projects cannot be subjected to state-based gas reservation policies.

But gas reservation is bad policy and FLNG's inability to co-exist with flawed policy should not be the criteria against which it is judged.

It's true that FLNG construction creates fewer construction jobs than an onshore gas plant does.

But developing these fields will create jobs and tax revenue that Australia would not otherwise enjoy.

And once an FLNG plant starts operating, it requires more support staff than an onshore plant.

And these are long-term jobs.

An entire new industry – 'FLNG servicing' – will emerge. It will create well-paid jobs and offer training that will take Australians around the world.

FLNG is an exciting innovation.

It will require us to change the way we think and operate, but it will also open new doors for Australian businesses and workers.

We shouldn’t fear innovation and nor should we fear change.

Innovation has increased energy security and enhanced our prosperity.

Innovative policy reforms introduced in the 1980s and 1990s transformed our business environment and took Australia from being a closed shop to a prosperous nation.

Now is not the time to retreat into our shells.

That is the worst approach to take when times get tough.

We must get serious about closing the competitive gap that has opened up between Australia and our rivals.

If we get our act together, more LNG projects will be developed in Australia.

If we get our act together, our nation will become more competitive across the board and we will extend our run of prosperity.

The opportunity is before us. But if we don’t grab it, we’ll lose it.

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