

The Hon Ian Macfarlane, MP
Minister for Industry, Tourism and Resources

APGAS FORUM

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Welcome to Australia and to Perth – if you can't be in Queensland, it's the very next best state to find yourself. I'd like to particularly welcome His Excellency the Minister of Energy for Thailand. We had a productive meeting last night and again I'd like to say 'thank you' for making the effort to attend this important APEC forum.

I'd also like to thank Angus, Bret and the Australian Energy Alliance for their work behind the scenes to organise this event. For those who don't understand the connection – the Alliance represents Australia on the APEC Energy Business Network and also contributes to the APEC Working Group. That's a bureaucratic way of saying the Alliance is one of Australia's primary means of contributing to – and shaping – energy policy for our region.

Before beginning proper, I want to also congratulate Chevron on its announcement last night that it will be establishing a technology centre here in Perth. The company is investing heavily in 2 new R&D and technological development centres, both due to open in the first half of 2007. The second centre will be in Aberdeen – and even as a Scotsman I would have to say I'd expect a much longer line of applicants for the Perth operation.

The local investment is not just a reflection of Chevron's growing presence in the Asia-Pacific region. It is a solid investment in the R&D and innovation capabilities of the skilled Australian workforce.

The Challenge

My job in opening these talks today are to lay down the gauntlet – to make sure you build on the work of APEC Gas 1. Next year, as part of more than 100 meetings in 14 Australian cities, APEC Energy Ministers will meet in Darwin. This APEC meeting is a first for Australia. And believe me, there is a momentum to see strong, workable and immediate policy decisions made over those 2 weeks that comes from the top. As little as 12 years ago it would have been an almost laughable proposition that Australia had the regional significance to host an APEC meeting of any description. But 10 years ago our Prime Minister, John Howard, set out on a determined path to move Australia from fringe contributor to centre stage APEC contributor.

It hasn't happened overnight but Australia has never before held such an important position in the regional dynamic. We are a front row contributor in a security, economic, policy and planning sense.

So the work you do here at AP Gas 2 will feed into next year's meetings which will deliver on regional support for better development of natural gas as an energy solution.

The APEC leaders understand that gas is a key strategic element in delivering a sustainable global economy, as well as a sustainable global environment. Many APEC economies possess huge natural gas reserves with export potential of as much as \$100 billion a year by 2025. The challenge is to use these resources for the greatest global benefit.

Global energy markets are transforming at an incredible rate. Demand is up, exploration is up. And the competition for finance, people and equipment is fierce.

The growing demand for cleaner fuels and technology is making gas a natural choice for many investors and overseas consumers. Life-cycle costs and environmental advantages now rank much higher in purchasing and investment decisions.

For many, natural gas is the 'bridging fuel' that will take us into a new generation of efficient, clean energy.

LNG offers a flexible, reliable and cost effective option for many countries, especially for the transportation of gas over longer distances. According to ABARE, regional demand for LNG is forecast to expand from present levels of about 90 million tonnes a year to more than 124 million tonnes by 2010 and 160 million tonnes by 2015. And, the LNG tanker fleet is expected to double in size by 2010.

The challenges posed by this growth will reach across commercial relationships and raises issues of risk mitigation, operational safety, capacity development and regulation.

Australian gas

In Australia, natural gas represents 20% of the primary energy mix and is our fastest growing fossil fuel source. I expect our production to grow at a rate of about 6 to 7% a year for the next 20 years. We are determined to become one of the world's top 3 exporters of LNG. And that is likely to bring with it a three- to four-fold increase in Australia's LNG production capacity.

While Japan remains our chief customer, there are two new players who represent significant opportunity for our producers. The US and India are now scouring the world for the best sources, the best prices and most reliable suppliers.

Some of us can see that California gas dream being realised in the next decade – and fired by Australian LNG.

And we shouldn't forget what some have tagged the 'back door option' – the large and thirsty Mexican market. We've done a lot of work at a government to government level on the Mexican relationship – both from the perspective of supplying that market and piggy-backing into North America. I think there is a real appreciation in Mexico City of Australia's pivotal role in the future of global LNG supplies. We are well placed to be part of the gas solution that the Americas will inevitably seek.

Closer to home, as a member of the Asia-Pacific Partnership on Clean Development and Climate (AP6) we are building strong ties through work on technology to reduce greenhouse gas emissions. AP6 has 8 Taskforces and the one focussed on Clean Fossil Energy has a particular emphasis on identifying and addressing barriers to the delivery of LNG. As Chair of this taskforce, Australia is pursuing every opportunity to further develop natural gas opportunities in the Asia-Pacific region.

We have a tremendous, hard-earned reputation as a safe, reliable supplier of LNG to our region and further afield. However – and I guess this is where the journalists actually lift their pens – there is a real note of caution.

Domestic gas reservation

Our reputation as one of the world's best LNG exporters and our ability to guarantee no sovereign risk is under threat. I can see how – from a West Australian perspective – a domestic gas reservation may appeal for those of you who use the resource. But to introduce such a restriction on natural gas development in this country would deliver a very short-term benefit to West Australians.

The real – and tragic – outcome of the Premier's proposal would be two-fold. Firstly, companies tossing up between a new gas project in Australia and somewhere else they have reserves will simply chose option B. With option B they know they have full control of what is theirs, they know they can get full market price for all their product. And they can confidently plan for the full development of the project.

They can not do those things where a heavy-handed government seeks to set limits to a company's operation through a domestic reservation system.

Australia must protect our claim to no sovereign risk – it's one of our greatest investment attractions. And that's not a political comment, it's a commercial reality.

It's a commercial reality that's causing at least one operator to reconsider some \$5 billion worth of investment that had been earmarked for Western Australia. They have the option to go elsewhere – and they will – because of the sudden sovereign risk that has been introduced by Premier Carpenter.

The second outcome will be a giant shadow of uncertainty thrown across Australia's ability to deliver future supplies to our overseas customers. It will be the best advertisement for LNG producers like Qatar that they could hope for. So the end result of a domestic reservation system is that our export earning potential is reduced, investment in local gas projects is reduced. Smaller players are scared out of the state and your temporarily cheap gas suddenly becomes a lot more expensive.

Now I understand what the Premier is trying to do, in the interests of West Australian businesses. But we can't have it both ways.

We can't be happy to live off the wealth generated by our LNG export industry but then try to cut a local deal under the table that short-changes those very projects.

The Australian Government's priority remains that this country – and this state – remain a competitive investment destination and a completely reliable supplier of LNG.

AP Gas 1

At AP Gas 1 more than 160 participants from across the APEC region identified reoccurring issues that confront the industry. That is industry transparency, relationships and security. From that, five key themes emerged which have helped focus the efforts of the Working Group and contribute to energy reform efforts.

However, there is much still to be done – as the wheels of bureaucracy, and government, inevitably move too slowly for business.

The relationship between energy consumption and economic growth is undeniable.

Demand is now being amplified in APEC economies to a point where it is making a major impression on the exporting countries particularly. The energy world is no longer as stable as it used to be, business and governments are increasingly looking for price certainty.

So – as I see it – the key issues now are:

- Stabilising prices;
- Improving security of supply; and
- Getting more information to the public about the benefits of natural gas.

I think AP Gas 2 should set itself the primary goal of enhancing energy security in the APEC region. And I will be listening for your recommendations for encouraging commercially sustainable cross-border gas trade in the region. Free and unhindered cross-border trade in natural gas is an issue of strategic importance to APEC economies. Artificial constraints on trade – either tariffs or domestic reservations – can only hinder those important trade relationships and undermine the viability of future LNG projects.

Conclusion

In conclusion, the work being done here has the potential to set the tone for next year's APEC Energy Ministers' meeting. I have great hopes for that meeting and certainly the Australian Prime Minister is expecting policy results, not a two-day talkfest.

We all have great expectations for natural gas. I'd like to see its use in Australia grow significantly.

But these expectations will not be realised unless governments, investors and communities collaborate on the development and supply of the gas. The goal of energy security and sustainability is more than just an admirable ambition for a conference like this.

It is an economic and planning necessity which will underpin the future quality of life in the Asia-Pacific region. What we do today in these forums will determine the energy legacy we leave for our countries and our children.

Don't under-estimate your role in that planning process.

Thank you.