**Energy in Transition**
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**Woodside**

**APPEA**
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Firstly, I would like to acknowledge the Traditional Custodians of the land on which we meet today, the Nyungar Wadjuk people. I would also like to pay respect to the Elders past and present and extend that respect to other Aboriginal Australians who may be here with us today.

This conference comes at a crucial time for our industry, as the role we play in the supply of energy attracts widespread attention.

It is timely for us to discuss our responsibilities and to consider what is at stake, for LNG operators and for those who rely on us.

It should be a time of opportunity for gas, as energy markets search for reliable supplies of low emissions energy.

It should be a time for gas to shore up its position in Australia's energy mix.

It should be a time for Australia to celebrate its abundant and diverse sources of energy, with gas playing a central role.

It is regrettable that it is instead a time when the concept of energy security is featuring in the national debate because it is in doubt, when manufacturers in the eastern states are complaining they cannot source supply. It is regrettable that our industry's tax contribution is being called into question.

It is regrettable that it is seen as a time of crisis, particularly considering it is a time globally of abundant and cheap gas.

The manufacturers are not the only ones who lose out in this scenario. Our whole industry loses out if gas is no longer seen as a reliable and available energy source, if we as producers are seen to be creating problems for the community rather than solving them.

In those circumstances, our social licence to operate is at risk.

Unfortunately, those smaller explorers, whose activities are vital to our industry's future, also risk getting caught up in the cross-fire. Exploration is already in dire straits. We should all be concerned if it becomes even harder for small- to mid-cap explorers to attract backing. There must be explorers and seismic companies questioning whether there's a future for them in the Australian industry. Perhaps it's time for the industry to consider that the future might look pretty grim without them.

Naturally, some of the issues that have dominated recent headlines will have a tendency to divide industry, depending on where you sit and whether or not you are directly affected.

Quite rightly, there are many here today who are feeling under significant pressure and a little aggrieved by the way our industry is being portrayed in national debates. But equally, there are others who may be scratching their heads and wondering what went wrong and how we ended up here.

Now is *not* the time for us to revert to tribal behaviours that could leave our industry vulnerable to populist campaigns. Now is the time for us to unite as an industry and define our common purpose, mindful of the need to explain to the community how they benefit from our activities.

We need to convey to the community that we understand they own the resources. As resource developers, we commit to being responsible stewards of the environment. But over and above this, we have a responsibility to make a contribution to energy security, as well as a social contribution and an economic contribution, including through creation of jobs and payment of taxes.

I have spoken at previous APPEA conferences about how we need to be vigilant about maintaining our social licence to operate and ensuring we meet the growing expectations of government and the broader community. We have seen this year what happens when those expectations are not met.

The unfolding energy crisis on the east coast in recent months has fundamentally challenged Australia's understanding of its status as an advanced economy with high living standards.

It started, of course, with blackouts in South Australia, exposing flaws in the models of power generation and distribution through jurisdictions that are interconnected but often pull in different directions.

The issues extend well beyond the availability of gas.

But the growing uncertainty over energy security shone a spotlight on the constraints of east coast gas markets, revealing manufacturers' anxieties over escalating prices and supply shortages. This highlighted dual challenges: state government exploration and development bans were restricting new supply, while the rapid growth in exports from the east coast hoovered up much of existing production.

The exploration and drilling bans are symptomatic of a trust deficit that has emerged between our industry and the broader community. The imbalance between exports and domestic gas has made this situation worse.

It is clear we need to consider how we can regain the trust of the public. If we are to get onshore development back on track, we should think about whether a first step might be for APPEA to consult and agree on a code of conduct for land access and use that recognises and assuages landowners' concerns. We need to commit to a clear set of principles and processes to enable us to work with land owners and affected communities. Similar codes exist elsewhere in the world.

As an industry, we have been proud to carve out a role for Australia as a leading LNG export nation, but those boasts sound hollow if we cannot supply customers at home.

To put it bluntly, we need to ensure some of the resources we develop are available for Australian consumers, and available at a price that is sustainable for both the customer and the producer.

Markets can work freely with little Government supervision when they are deep and liquid with multiple players able to take on risks, both short and long-term. It is clear that gas markets, left to their own devices, do not always ensure domestic supplies, particularly when the market is small. It is also clear that this is unacceptable to the community.

It is vital that Government has an overarching plan for energy security, guided by clear principles and reasonable objectives. In the absence of a plan, the Government will continue to resort to blunt instruments in response to short-term pressures.

While the arguments for the Australian Domestic Gas Security Mechanism are understandable, it is clearly not an enduring policy and it has the potential long-term impact of inhibiting additional development of domestic supply.

There are immediate solutions that can increase domestic supply while honouring export contracts. Cargo swaps are one such option. However, it’s more a band-aid than a long-term solution.

A pipeline from west to east may be offered up as an option. The gas is available, a pipeline is physically possible, but it’s not clear that there are customers who would underwrite it. Also, its timeframe is long-term and its economics challenging. We will await with interest the results of a feasibility study that was unveiled in the federal budget last week.

It’s time to change the conversation. There’s little to be gained from blaming industry, farmers or environmentalists. Instead, we need to acknowledge that in a democracy we must be guided by the needs of the community. We need a more mature approach to setting policy frameworks for engagement.

Our industry was confronted in the past year by a perfect storm as the angst over east coast gas supplies compounded public concern at a decline in tax revenues due to low prices.

Not so long ago, our industry was enjoying a number of years of profit based on high oil prices, which encouraged us to invest in new plant. With hindsight, it is possible to say that some of those investments lost sight of the need to be continually vigilant around capital efficiency of our businesses and the way we develop our projects.

The wake-up call came in 2015, as prices dropped. Consequently, companies had to adjust their balance sheets, review cash inflows and outflows and take some difficult decisions on project execution – the way we build projects and the timeframe in which we build them.

These changing fortunes also resulted in a significant reduction in tax remittances. This was evident in a drop in PRRT revenues, as well as a decline in individual corporate tax payments due to lower profits in our businesses. Our profits were down, and so were government revenues.

The upshot was a rising community resentment that threatens to undermine all the good work we have done in establishing our industry and growing the market for gas. Against this backdrop, it becomes harder to engage in constructive conversations with major stakeholders.

In both debates, about taxation and energy security, it is important to remember that resource developers draw on a social licence to operate that imposes certain obligations. The resources are owned by the people, who allow us to develop them but expect a return. We should not expect the public purse to subsidise flawed decision-making that ignores the cyclical nature of the commodity cycle.

Since releasing the Callaghan review of the Petroleum Resource Rent Tax, the federal Government has promised to continue to consult our industry about the tax regime. In a spirit of constructive engagement, I want to discuss some principles that should underpin the fiscal framework for our industry.

Tax structures should be designed to encourage investment and allow reasonable deductions while ensuring government revenues are predictable and sustainable.  We should accept the basic proposition that there should be a level playing field, with the same rules applying to all players.

In many ways, it is the junior explorers who are more likely to take the risks that might lead to the discoveries that will be crucial if we want to grow Australia’s gas production. Exploration onshore is largely off-limits at the moment due to state government bans and that’s particularly problematic for smaller explorers, who may not have the resources for offshore exploration. Offshore exploration has been in decline for years, even when commodity prices were strong. Unless we, as an industry, throw our support behind changes to reinvigorate exploration activities, we face a long-term decline in production.

There are a range of factors making exploration today challenging, particularly for smaller companies. It's not just the state of the economy, but also regulatory and commercial frameworks.

We need to think about how we can overcome the barriers to explorers accessing capital, permits, seismic data and infrastructure.

Fiscal measures could help in this regard.

Another way the federal Government could help unlock stranded reserves and stimulate exploration is by providing roll-over relief in targeted circumstances for swaps involving both upstream and downstream project assets. Deferring the tax payable on such asset swaps would remove a barrier to making efficient use of resources and existing infrastructure. It would allow projects that might not have reached a Final Investment Decision on a stand-alone basis to be aggregated into more economic prospects.

The licensing regime, based mainly on work program bidding for exploration blocks, has served us well but we need to ask whether it still suits the maturity of basins.

When the United Kingdom was looking for ways to stimulate development of resources in the North Sea, it opened up access to seismic data. That shift reinvigorated activity in the region by opening the door to new ideas and approaches.

A lot of Australia's resources are in mature provinces, in deep water and with high development costs. If there are people out there with ideas about how to develop them, we need to create an environment that allows those ideas to progress.

We could also look to the Gulf of Mexico, where seismic data was made more readily available and royalty relief was offered for deep exploration. Significantly, templates were agreed for negotiating third party access to pipelines, reducing the time it takes to reach agreement on the use of infrastructure.

At the moment, the cost of building new infrastructure, like ports and transmission pipelines, can be a barrier to exploration and development of resources. As an industry, we have built a lot of infrastructure in recent years. We need to think about how we can maximise its value while enabling the development of new resources. It is important that industry works together and that existing infrastructure owners cooperate with other players if they request access to infrastructure as they look for a path to discover and commercialise resources.

Indeed, we could begin a conversation about what principles should apply to accessing plants, pipelines and transport infrastructure, bearing in mind that the investors must be able to recoup their costs.

We need to cooperate, and we need to innovate.

We should be thinking about new approaches and new technologies.

We also need to be on the look-out for new markets and opportunities for LNG. In this vein, Woodside is supporting the emergence of a market for LNG as a transport fuel by working with industry partners to roll-out LNG as a marine fuel and for use in mine-haul trucks and locomotives in the Pilbara.

There’s a commercial imperative here, but there are also environmental benefits. Significant emissions reductions can be achieved by switching to LNG, which has carbon emissions approximately 25 per cent lower than diesel, negligible sulphur emissions and much lower particulate and nitrogen oxide emissions than diesel and heavy fuel oil.

The transition to LNG fuelling is gaining momentum, spurred on by the International Maritime Organisation’s move to impose new caps on the sulphur content of fuel from 2020. Australia could send a signal about its support for emissions reductions and for cleaner fuels by establishing Emissions Control Areas in all major Australian ports, building on the recent decision to impose sulphur restrictions on cruise ships in Sydney Harbour.

To sum up, our industry finds itself at a critical juncture. We have lost the trust of the public. That has infected the relationships that are vital to our industry - with investors, with communities, with landowners and with governments.

We need to challenge ourselves to think deeply about how our actions and the decisions we have taken are perceived.

As an industry association, it is timely to remind ourselves of APPEA’s Vision and Strategic Goals.

Those goals include promoting excellence in safety, health, environmental performance and community engagement, as well as enabling access to domestic and international markets on globally competitive terms without distortionary and interventionist policies.

Rarely have these goals been more pertinent.

Our industry has come a long way in recent years. We have been through a period of rapid growth, but it is important that we bring the community with us.

Gas still has a big role to play, as the world strives to reduce emissions while demand for energy continues to grow.

Let’s make sure we’re in a position to continue delivering it for decades to come. Thank you.