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Chevron Australia Managing Director, Roy Krzywosinski.

Chevron: Clock ticking for Australian industry

Martin Kovacs, 7 Apr 2014

Roy Krzywosinski, Chevron Australia Managing Director, has told the APPEA 2014 Conference the "clock is ticking" as industry faces a "mighty drop-off" in project development in the coming years, stating collaboration is needed to achieve structural change for Australia's high costs.

Krzywosinski stated Australia needs to ensure it isn't pricing itself out of the market in terms of wages and productivity.

"We know the need to improve productivity has been identified from a wide range of sources," Krzywosinski commented.

"A report by the Business Council of Australia found resource projects in Australia 40% more expensive than in the US Gulf Coast. This is roughly in line with what we've experienced on the Gorgon project."

While the costs of overseas supplied goods have been relatively stable, the costs of locally supplied goods and services have risen dramatically, Krzywosinski stated.

"This weighs heavily on Chevron and its partners as we consider a fourth train expansion of Gorgon," he commented. "While the main focus remains on the construction of the foundation project, we remain supportive of a Gorgon expansion provided the cost settings are corrected.

"To enable these projects to move forward it will require industry, government, buyers, sellers and unions to come together. Not in self-interest, but in the national interest. We need to work together to achieve a structural change in Australia's high costs—it will require a collaborative mindset and national leadership."

Krzywosinski stated he believes the key to success is threefold:

First, policy reform from government, with support from industry,

Second, how LNG buyers and sellers must come together on contracts that are mutually beneficial, and;

Third, a continued industry focus on technology and innovation to enable growth.

"I note recent comments by former Resources Minister and Chairman of the APPEA Advisory Board, the Honourable Martin Ferguson, when he observed the Australian federal government's reform did not go far enough ... and government must keep an 'open mind about further reform'," Krzywosinski stated.

"While it is early days, government reforms to improve productivity and drive down high costs are certainly a positive step in the right direction.

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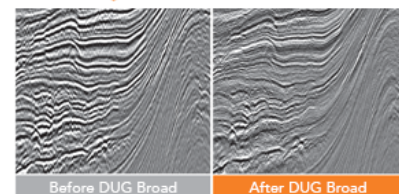
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"They include measures aimed at simplifying approvals, removing unnecessary red tape, changes to Fair Work and restoring the Australian Building and Construction Commission. These changes are very much welcomed and I am sure you will agree with me when I call for bipartisan support for the government's reform program."

Krzywosinski, however, stated "we stand ready to work together for further positive change".

"For example, on taxation, industry needs greater certainty, predictability, and a system that attracts and encourages investment," he commented.

"On industrial relations, reforms are needed to the *Fair Work Act*, most urgently on right of entry provisions. It may surprise you to hear that since 2009, the Chevron-operator Gorgon project has been subject to almost 1,000 disruptive right of entry claims from unions."

Krzywosinski stated the "same imbalance in the employer-employee relationship also explains how unions have leveraged significant and unsustainable wages and conditions hikes over recent years".

"It's also borne witness to a 'ratcheting' effect where the end point of one project labour agreement or 'greenfield' agreement becomes the starting point for the next," he commented.

Krzywosinski stated "wage growth is what is currently crippling Australian industry and is simply not sustainable".

"Rising labour costs are hampering competitiveness, and combined with low productivity will ultimately cost jobs," he commented.

"We also propose labour agreements reflect a more competitive market-based system. It's not much good having the best paying jobs in the world, if there's fewer of them because the pipeline isn't replenished."

Another important reform is a move away from the short-term nature of project agreements, Krzywosinski stated.

"Current labour agreements do not cover the construction life of LNG projects resulting in a lack of certainty around labour costs," he commented.

Buyers and sellers need to work together

Krzywosinski stated buyers and sellers need to work together to "find a value proposition that works for both sides".

"Buyers need a reliable supply that is priced competitively against their alternatives," he commented. "Sellers need a revenue stream that supports an economic investment."

"As with any commodity, the cost of delivering the product to the customer is critical. We need to keep in mind that customers are astute and price sensitive."

"To reach a price that's mutually beneficial in today's environment, we need to get costs down or risk investments going offshore."

"Projects won't go ahead without agreement on rational pricing mechanisms to underpin these projects."

"If we collaborate, I am confident we can find common ground to achieve the necessary pricing to underpin future projects while supporting Asia's economic expansion and development."

Technology critical to success

Krzywosinski labelled technology investment a "key enabler of growth".

"For seven years now we've operated a Chevron Global Technology Centre right here in Perth," he commented. "It's one of only two centres of its kind for Chevron in the world."

"We have hundreds of the smartest minds working to solve Chevron's technology challenges as we explore new frontiers, drill deeper and develop more complex projects."

"Right here in Perth we are achieving a number of firsts. We're building one of the world's biggest carbon dioxide injection projects at Gorgon, positioning Australia as a leader in this technology."

"And we're applying technology in exploration to find hydrocarbons further offshore and at deeper depths than ever before."

"Australia, and in particular Perth, is fast becoming a global technology 'hub'. Much like a Houston or Aberdeen, Perth is transforming into an LNG technology 'centre of excellence' for the southern hemisphere."

Krzywosinski stated developing new technology and innovation goes "hand in hand with developing and operating new projects".

"New projects demand we work together ... again, in the national interest," he commented. "And the urgency for change is greater now than ever."

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