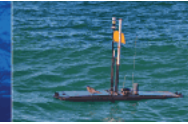




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Inpex President and Chief Executive Officer Toshiaki Kitamura.

Work being undertaken on all major components as Ichthys takes shape

By Martin Kovacs, 7 Apr 2014

Toshiaki Kitamura, Inpex President and Chief Executive Officer, has told the APPEA 2014 Conference steady progress is being made on the Ichthys project, with work now under way on all of the project's major components, including the central processing facility, gas export pipeline, LNG plant modules, and the Blaydin Point, Darwin, onshore facilities.

Later in the year, Inpex is planning to commence installation of pre-fabricated LNG plant modules on the plant site, Kitamura stated, along with additionally commencing pipe-laying operations and spudding the first wells in Ichthys' development well drilling campaign.

As Inpex seeks to establish itself as a "top-class international oil and gas E&P company", Kitamura highlighted the company's Australian focus, stating a "significant amount" of the company's global exploration budget will be allocated to Australian projects, with Inpex occupying positions in 10 exploration blocks surrounding the Ichthys field, six as operator.

"I fully expect we will discover resources to supply the Ichthys LNG plant in Darwin well into the future," Kitamura stated.

Inpex is additionally seeking to develop and strengthen its global gas supply chain, with Kitamura stating Ichthys gas is set to be delivered into the company's Japanese domestic network, creating a strategic "gas Silk Road" between Australia and Japan.

Kitamura acknowledged the role Australia is set to play in shaping Inpex's future.

"Indeed, with the expertise we have assembled to deliver the Ichthys project, our Perth office is poised to become a centre of excellence for Inpex operations worldwide," Kitamura stated.

"This means that we will be able to leverage the talented and skilled personnel we have recruited into our Australian operation to help us meet our global growth strategy."

Changes in the LNG market

With "signs of enormous structural changes in the global LNG market", Kitamura noted a large increase in LNG demand in the Asian market is forecast amid expectations Japan will remain the largest LNG importer in the world.

"Of the total forecast LNG demand in Japan in 2020, around 40% is expected to come from long-term contracts with Australian LNG suppliers," he stated.

Kitamura noted under the Japanese government's "Strategic Energy Plan" nuclear energy has been labelled an "important source of base-load power generation".

"However, because of the very strict review process based on the new safety standard, our view is that the number of reactors that will restart this year will be

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limited," he commented.

"The plan also identifies natural gas as an 'important energy source' and urges a shift towards natural gas usage by conversion from other energy sources and diversification of gas utilisation."

Kitamura noted the "potential increase of future LNG supply targeting the Asian market is huge".

"The outlook for the global LNG supply volume, according to Wood Mackenzie, is around 450 MMtpa in 2020 and 630 MMtpa in 2030, of which 90 MMt and 120 MMt are expected to come from Australia respectively," he stated.

"This is a huge excess in supply. And if the planned LNG projects in Australia come on stream as scheduled, Australia will overtake Qatar as the world's largest LNG supplier by 2020."

This forecast is, however, again subject to change depending on how many new LNG projects actually materialise and how much they are able to supply, Kitamura commented.

"It should be noted that there is a substantial gap in the supply forecast between LNG suppliers and buyers," he stated. "This gap is reflected in much the same way in their perspective on the future supply-demand balance."

LNG pricing mechanism

Kitamura noted differing opinions between suppliers and buyers on how future LNG pricing should be formulated are not surprising "given their varying views on the supply-demand balance".

"The key importance for suppliers is to secure long-term sales and purchase contracts with the buyers including a bankable pricing formula to justify the huge capital expenditure required, whether it is Henry Hub-linked, traditional oil-linked or any other," he stated. "For the buyers, priority is given to diversify their LNG pricing formula."

Although the Asian market has been "more or less isolated from the other markets", barriers between the markets are starting to become lower due to new supply sources, such as North America and Africa, entering the market and spot or short-term trading increasing across the globe, Kitamura stated.

"I am concerned that there exists a substantial gap between the suppliers and the buyers with regard to their understanding on the future supply-demand balance and what future pricing mechanism they envision," he commented.

"Unless this gap can be narrowed, the worst case scenario would be a delay in the development of a healthy global LNG market resulting in a 'lose-lose' situation for all concerned."

Kitamura further stated "to convert such a negative situation into a 'win-win' outcome" close coordination between suppliers and buyers is needed.

"Firstly, we need to establish a cooperative relationship between the suppliers and the buyers through close dialogue and by promoting mutual understanding which can serve to seek solutions that will satisfy both parties at the end," he commented.

"Secondly, having the buyers in upstream joint ventures with small participating interest could be an option to expand the partnerships between the both parties. Although this should be considered on a case-by-case basis, it can be anticipated that where such partnerships are feasible issues existing between the both parties could be solved from a wider perspective.

"Thirdly, the suppliers must continue their efforts to make their LNG developments cost effective and competitive through the application of new technologies, discovery of new gas resources and efficient project management. The buyers would be required to understand and support the efforts made by the suppliers."

Host countries, including Australia, would also be "requested to offer an appropriate environment to support the positive efforts of the supplier", Kitamura stated.

"In this respect, I would like to commend the recent initiatives taken by Australian government to sharpen this nation's competitive edge," he commented.

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