ECONOMICS AND INDUSTRY STANDING COMMITTEE

Second Report — "The economic impact of floating LNG on Western Australia", Volumes 1 and 2 — Tabling

MR I.C. BLAYNEY (Geraldton) [9.54 am]: I present for tabling the second report of the Economics and Industry Standing Committee, entitled "The economic impact of floating LNG on Western Australia", volumes 1 and 2, and the submissions received by the committee.

[See papers 1622 to 1624.]

Mr I.C. BLAYNEY: It is my pleasure as the Chair of the Legislative Assembly's Economics and Industry Standing Committee to hand down our first report in this Parliament, examining the implications of the adoption of floating liquefied natural gas processing off the coast of Western Australia. I express my thanks and appreciation for the professionalism, hard work, and enthusiasm of our staff, Dr Loraine Abernethie, and Mr Michael Burton. I also thank the other members of the committee: Hon Fran Logan, member for Cockburn; Mr Peter Tinley, AM, member for Willagee; Mr Shane Love, member for Moore; and Mr Jan Norberger, member for Joondalup. I also thank the member for North West Central, Mr Vince Catania, for the short term he spent on the committee. I thank all members for their willingness to work enthusiastically, in a cooperative manner.

I make special note of, and give thanks to, Mr Bill Tinapple, former head of the Department of Mines and Petroleum, who joined our committee to help us as a technical adviser for this complex study. I also express my appreciation for the agreement of you, Mr Speaker, to fund this position.

This is a complex report, and it is a complex issue, in a complex industry. I cannot cover all of the issues covered by the report, but I will touch on many of them. Firstly, I would like to quote from Aristotle —

> You will never do anything in this world without courage. It is the greatest quality of the mind next to honour.

I have taken this quote from a cartoon by our wonderful Western Australian cartoonist, Dean Alston, that marked the tragic loss of a team from Sundance Resources in a plane crash in the Republic of Congo in June 2010. But it is appropriate. Resources, be they gas, oil or mineral, tend to occur in out-of-the-way places, and these industries carry a higher level of risk than many others.

I dedicate this speech to the late Sir Charles Court. Sir Charles was the father of the LNG industry in Western Australia, and he came in for a lot of criticism for signing a take-or-pay contract for gas from the North West Shelf Project. That, too, showed a lot of courage. It underwrote the development of the North West Shelf project, and I frequently wondered throughout this last year, as we worked on this report, what we would have now had he not signed that contract. It also may be the sort of courage that has led to the development of FLNG technology, although Woodside would almost certainly say that the use of FLNG technology is less risky from a financial point of view than building a gas plant onshore at James Price Point.

I found the oil and gas industry fascinating. The world as it is now basically runs because of it. The industry is a rapid developer and adopter of new technologies; it involves vast amounts of capital; it can be extremely dangerous; and the pursuit of new gas fields and oilfields is taking companies into extremely challenging areas such as the Arctic, and ever deeper oceans, such as those off Brazil, and in the Gulf of Mexico, which leads to huge technical challenges.

Gas has become big business in Western Australia, as well as in Australia. In 2012, petroleum production in Western Australia was worth some $24.4 billion, with $17.3 billion, or 71 per cent, of that coming directly from natural gas resources. Western Australia is both the largest producer, and the largest consumer, of natural gas in Australia. Some 92 per cent of Australia's natural gas resources lie off the Western Australian coast in the Carnarvon, Browse and Bonaparte basins. Domestic gas supply, both in terms of reliability of supply, and reasonableness of price, has huge implications for the performance of the Western Australian economy, and hence for employment.

Projections have Australia as likely to surpass Qatar as the world's largest gas exporter by 2020. Of interest, and critical to gas supply in WA into the future, is the potential role to be played by onshore unconventional gas, such as shale and tight gas. Some projections have estimated it at 280 trillion cubic feet, which is contrasted with the total reserves of 125 tcf estimated off the Western Australian coast.

These figures, and the uncertainty around the onshore figure, underline how critical the settings are in the Western Australia gas market. We are very reliant on gas; its cost is critical; and the period between now and when onshore gas begins flowing—assuming it does—will be hard to manage. This will be impacted quite seriously by the advent of FLNG, which cannot have a domestic gas requirement placed on it by the state government, being in commonwealth waters. The vessels themselves, of course, are not physically connected to the mainland, and produce only FLNG. Building a regasification terminal to accept LNG into the West Australian market fails both a logic and an economic test. It is made unnecessary by the presence of the North West Shelf gas pipeline.

Shell, and the advent of FLNG: FLNG is seen in some quarters as a quite revolutionary system, and in others as simply an evolutionary step of existing technology. So perhaps we can say that it is revolutionary in effect, but evolutionary in process. We can trace the concept of FLNG back to the 1970s. Various companies conducted feasibility studies into FLNG but concluded it was unviable. Shell continued research into FLNG into the 1990s, which eventually culminated in a basic design package for FLNG vessels in 2008, with a "design one, build many" principle. Shell as a company has a strong record in innovation. It was recently rated as the sixth most innovative company in the world by *Fortune* magazine. It works in the area of deep water, with the Perdido field in the Gulf of Mexico working at 8000 feet, and in Brazil at similar depths, using pumps on the seabed to push low pressure oil to the surface. Shell is working in the Arctic, which is estimated to contain 30 per cent of the world's undiscovered natural gas and 13 per cent of its undiscovered oil. Shell is a world leader in the area of gas-to-liquids research, and has a plant at Qatar that produces one million tonnes per year of synthetic oil. It is also involved in the production of oil from tar sands in Western Canada.

I refer now to the effect on engineering, fabrication, construction. The first LNG plant to be built in WA was both designed and manufactured here. However, from this point, the industry switched to designing elsewhere, and then with the rise of modular construction, started importing units to be assembled on-site. The advent of FLNG leads to the direct importation of the entire assembled unit. By signing a price for the unit beforehand, the company entirely does away with the risk of cost overruns during the construction phase. It also enables capacity to be bought in blocks, and should the decision be made to switch the unit to another field, it is simply a decision made until the point of delivery. Even when operational, it is, of course, physically possible to move units around the country or the globe. The production of the units, having been described as "design one, build many", really just applies the principles that Henry Ford brought to the automobile industry to the production of vessels that weigh 600 000 tonnes, are 500 metres in length, and cost maybe $12 billion. The implications of this to local employment are devastating. The companies respond by saying that in the longer term, there are more jobs in operation and maintenance, and were the system of FLNG not to be adopted, the gas fields would simply not be developed. In addition, the emergence of global engineering, procurement and construction, and the associated supply chains, has largely cut off opportunities for local fabricators to be involved. The oil companies said on at least one occasion that they basically did what they were told by national governments when it came to the degree of work made available locally.

I will briefly touch on industrial relations. It was pointed out recently that companies do not have an agreement that covers the time of the construction of their project. Midway through the project they have to renegotiate, which is, frankly, madness. I think it is worth noting that when this inquiry started, we had three committed car manufacturers that saw themselves as having a future here. Now they have all announced that they intend to close over the next few years. Australia is a high-wage country. With high wages must come high productivity, and for this the workers and management must be on the same page. It does not matter if it is Qantas, Toyota, SPC or another company; if a company is exposed to full international competition, management and employees have to work together for the company and jobs to survive.

I refer now to state agreements and retention leases. As stated earlier, the Browse fields lie mostly in commonwealth waters, and the Prelude field lies entirely within commonwealth waters. If FLNG is adopted, which will lead to higher company profitability, revenue to the commonwealth will increase. After having looked at commonwealth actions over the past few years, it is hard to come to the conclusion that anything else concerns or interests them. The adoption of FLNG leads to a change in the landscape for a company's use of retention leases. It will be hard for a company to hold onto a lease for terms extending into decades now that this technology exists. The committee therefore suggests a review of the process of granting and renewing retention leases.

The other issue of concern that the committee considered at length was the decision of the former minister Hon Gary Gray to unilaterally approve Woodside's wish to develop the Browse leases by means other than a gas plant onshore at James Price Point. This is dealt with in findings 6 to 13, and recommendations 4 and 5. This decision, we feel, was against the spirit of the joint authorities. The decision, in our opinion, does not amend the state leases, and if these leases hold more gas than was previously thought, it underlines more than ever the need for Woodside and its partners to engage seriously with the state government.

The EISC of the previous Parliament conducted a study into the domestic gas market in 2011. During our study into FLNG, the committee did not intend to examine the domestic market in great detail. However, we did not discover anything to lead us to question the results of that earlier study. The committee has noted concerns about the supply of gas when the legacy contracts of the North West Shelf project begin to end. We reject the suggestion that the domestic gas reservation policy is an impediment to the development of gas fields. Companies do not give the gas to the domestic market; they sell it. Allowing companies to sit on undeveloped gas fields and not try to find out whether other companies would be interested in developing the fields restricts supply. However, requiring long-term supply contracts to obtain financing makes companies more focused on the external sector. The presence of international buyers as shareholders in gas projects also focuses companies on international markets. The ambivalent attitude of Woodside and the North West Shelf project towards future supply to the domestic market underlines the committee's concerns. Supply of domestic gas is utterly critical to the functioning of the WA economy and the committee, without reservation, supports the continuation of the domestic reservation policy.

With the intended siting of the gas plant at James Price Point, Woodside had committed to provide over 30 years some $1.5 billion in compensation to the Aboriginal people of the region. The decision to abandon the site means that the amount that will be received, as I understand it, is quite small. I hold a regional seat: the regional seat of Geraldton. My electorate has some 3 500 Aboriginal people in it, and I think that in the area of services to Aboriginal people we do some things very well. There are some good, worthwhile things that Woodside and Shell and others could fund that would make a big difference, and not at a huge price. The network of Aboriginal football academies, run by Clontarf Foundation and founded by Gerard Neesham, is making a huge difference. The midwest academy will soon have 300 young men in it, and is among the best performers in Australia. Likewise, the SHINE program at John Willcock College is making a big difference in the lives of young Aboriginal girls. I commend MMG Limited, for example, for its $25 000 contribution to SHINE this year. The various Aboriginal medical centres working in the areas of population health are vital. We can never let up on working in the areas of diet, smoking, foetal alcohol syndrome, drug abuse, mental health and many other issues.

A simple organisation set up in Geraldton builds one house at a time for the Department of Housing. It currently has four Aboriginal apprentices working for it, and over the years the company has trained some 20 Aboriginal tradesmen. The point I am making is that the huge compensation package as a result of James Price Point is gone. However, there are many small-scale projects that companies can support throughout WA that do not cost billions and can make a huge difference.

One of the tragedies of this whole episode is the many delays that were encountered in finding a site on the Kimberley coast for a gas precinct. My guess is that if the James Price Point site had been ready five years earlier, Browse would have been built on it and probably Inpex as well. It may even have been possible for Prelude to use the facility. The economic spinoffs to WA's north, and in particular to the West Kimberley, would have been huge. However, delays meant Inpex went to Darwin, and Browse and Prelude went to floating liquefied natural gas. This was a huge opportunity lost. Our committee has considered this question at length and has come to the strong and unanimous conclusion that the state government should continue to develop the James Price Point precinct as a priority. Initially, our committee sees the site developing as a supply base for Browse's FLNG vessels, and a base for emergency services. We then see it becoming a site for service and repair facilities for FLNG components, and also a site for future gas processing from other fields in the Browse Basin, which was mentioned as quite likely to be another gas company, and for the processing of unconventional gas from the Canning Basin.

It needs to be pointed out that, with FLNG revenue flows to the federal government ahead of the state government at maybe a ratio of about 100 to one, the committee calls on the federal government to make a substantial contribution to the establishment of this base. It goes without saying that the base would also become a valuable defence asset into the future. It is worth pointing out the vulnerability of these huge vessels sitting off the coast. Throughout our hearings there was mention of the potential for Perth, and Western Australia, to become a centre of excellence in FLNG. The committee has a number of recommendations that would work towards establishing one. Recommendation 15 urges the new federal government to commit to funding previous commitments by the Rudd government to establish the national floating systems research centre and the oil and gas innovation partnership. The committee also expects that with increased research capacity in Western Australia, more commonwealth research funds will be directed to WA in the oil and gas sector.

Recommendation 18 urges the state government to approve the application by the Australian Centre for Energy and Process Training for $14 million to build stage 2 of its facilities. The committee visited this centre as part of its study and acknowledges its work and the fact that it is already involved with Shell and the Prelude project. I understand that this was approved as part of the most recent state budget, which I welcome.

In finding 33, the committee has stressed that Western Australia can be a manufacturer of sophisticated manufactured products to service the oil and gas sector. Pressure Dynamics and Hofmann Engineering Pty Ltd were mentioned to us as companies that have achieved this. As part of a centre of excellence, we consider that more such companies can emerge and that the federal and state governments must work on strategies to help bring this about, as well as local and foreign oil companies committing to support such companies. The committee has applied for and received permission to travel overseas to study a number of aspects of floating liquefied natural gas. We will visit facilities used to design and test the vessel in the Netherlands and will look at industry development around the oil and gas sector at Bergen, Stavanger and Aberdeen. The rest of the committee will make a short visit to Busan, South Korea, to look at the Prelude vessel that is under construction there and at an onshore re-gasification terminal. The model under which the Norwegian government has developed its oil and gas sector is vastly different from that in Australia, and I think it would be hard to argue that ours is better. These visits are also relevant to the committee's intention to do further work on economic opportunities that may be able to be derived from the adoption of FLNG in WA and into the safety requirements of these vessels. I anticipate that this work will be finished in the first quarter of 2015, after the committee's current study into the state's rail network lease.

I would like to thank our witnesses for their willingness to engage with us on this complex subject. I found Shell to be open and helpful and willing to meet with us as often as we wished, for which I thank it.

FLNG has never been the preferred model of the state government or the opposition to develop WA's gas fields. However, because the fields lie in commonwealth waters predominantly, the state government can do little but complain. I urge Woodside to come to the table and reach an agreement with the WA government on the development of all seven leases that make up the Browse proposal and to commit to a supply base on the Kimberley coast. Woodside also has to take extreme consideration of the importance of the supply of gas from the North West Shelf project as a component of WA's domestic gas supply. I also ask it to genuinely engage with the community in the Kimberley. I urge Woodside, Shell and all other operators to genuinely engage with local manufacturers and suppliers to extend the benefits of their projects as deeply as they can into the Western Australian economy.

The advent of FLNG need not be all bad for Western Australia. It is a different path; it is a harder path. But I think that focus, commitment and a centre of excellence that works with our local manufacturers could return considerable benefits to WA.

MR F.M. LOGAN (Cockburn) [10.12 am]: I, too, rise to speak on this critical inquiry into the use of floating liquefied natural gas in Western Australia. I would like to thank the Chairman of the Economics and Industry Standing Committee, the member for Geraldton; my fellow members, the members for Willagee, Joondalup and Moore; and especially the hardworking and dedicated committee staff, Dr Loraine Abernethie and Mr Michael Burton.

First of all, the tabling of the report today is critical. It is a very opportune time for the tabling of this report because yesterday the National Offshore Petroleum Titles Administrator agreed with WA's Department of Mines and Petroleum that the Western Australian petroleum leases and titles in the Browse Basin could hold at least 50 per cent of the field and possibly more of the Browse Basin. I ask the minister for resources, the Premier and the Treasurer to consider carefully the findings and recommendations in this report and remind themselves that the former federal Minister for Resources and Energy tried to convince them that the WA acreage, which I have just referred to, contained only eight per cent, or even less, of the field gas and condensate and that WA titles should be developed together with commonwealth leases for the efficiency of extraction. Critically, this inquiry report exposes the failings of the commonwealth–state relations in the development of offshore oil and gas.

On 2 August 2013, the former federal Minister for Resources and Energy Gary Gray made a historic unilateral decision to approve a variation to the retention leases in the Browse Basin that now allows the development of Browse Basin gas offshore by FLNG. This action by that minister has cost Western Australia billions of dollars in lost opportunity and income and tens of thousands of jobs. When taken in conjunction with the former federal minister's attempts to convince WA that only five per cent or eight per cent of the gas field was in its waters and his refusal to allow WA to have more time to consider in more detail its concerns about the extent of the gas in its jurisdiction, it is unsurprising that the committee's recommendation 4 states —

> The Minister for State Development takes whatever action is appropriate to ensure the Commonwealth Government complies not only with the *Offshore Petroleum Greenhouse Gas Storage Act 2006* (Cth) and the Joint Authority Guidelines, but with the established working arrangements between Joint Authority members. This may include, but not be limited to:
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> - referring the matter to the Ministerial Council;
> - developing changes to the Joint Authority Guidelines so that they better reflect established working arrangements; and/or
> - seeking legal advice as to the lawfulness of the Commonwealth Minister's unilateral decision relating to the Browse Retention Leases.

That is the recommendation in this report, which of course I fully support, but I go further, given that the Premier is in the house, by calling on the Premier and the WA government to go further and demand that that decision by the former federal minister be referred to a federal parliamentary committee or to the appropriate federal authorities for investigation to ensure that that unilateral decision by the former federal minister and Woodside executive was entirely in keeping with the act, above board and without influence from any external or internal source. Members must remember that this unilateral decision by the former federal minister has cost WA, its government and its economy billions of dollars in income and economic development and tens of thousands of jobs. It is absolutely vital that that decision be investigated and challenged legally.

The other extensive part of the inquiry—I urge the Premier and ministers to read the report—was on the impact of FLNG broadly on the economy. As the report outlines, the impact of FLNG is significant and possibly devastating for certain sections of the economy of Western Australia. There is virtually no local content from FLNG ships that are built in Korean yards by Samsung and the Daewoo Group. That will massively impact on fabricators and construction contractors not only in Western Australia in particular, but also across Australia. As FLNG ships are fully designed and engineered in France, Holland and Korea, there are virtually no opportunities for Australian or Western Australian–based engineering companies to be part of that design work. As FLNG ships are floated in from Korea, obviously no construction jobs are created onshore. The Browse LNG project at James Price Point could have delivered a minimum of 10 000 jobs and, if the multiplier effect is taken into account, 30 000 jobs for Western Australia. As a result of that unilateral decision, and if Woodside proceeds with FLNG, there will be no jobs of that scale in Western Australia. Those 30 000 jobs have gone.

Not one molecule of gas will be landed in Western Australia from FLNG ships and that will have a severe long-term impact on the supply and pricing of our gas to energy-hungry companies, and our state's sovereign right to develop our own resources. If we look at all these recommendations taken together, the losses to the state of Western Australia from FLNG will impact on state revenue and the budget of the WA government and, of course, the people who would have benefited most from the development of James Price Point—the people of the Kimberley themselves, the traditional owners of the resource, who were set to have an income of over $1.5 billion from the development of James Price Point. It would have been historic in its changes to job opportunities for the Indigenous people of the Kimberley. All that will be gone if Woodside continues to proceed with its FLNG development of the Browse Basin. Looking at the arguments in this report from Shell about Prelude and the need to develop it by FLNG, Shell argues that Prelude has to be developed by FLNG because it is isolated, stranded gas; it is uneconomic and would never have been developed in any other way apart from by FLNG. Look at the maps in the back of this report and the distance, Premier, between the Inpex field development and Prelude. The Inpex field pipeline is 12 kilometres from the Prelude–Shell FLNG site, and they say it is stranded, isolated gas. That field is all one and the same field—they are not separate fields, as some of the multinational companies try to convince us. That gas, even though it is going to Darwin, could have been put into the Inpex pipeline and tolled through Darwin. Obviously this side of the house would have preferred it to have gone to James Price Point as well; it did not need to be done offshore.

FLNG technologies probably will happen anyway; I do not disagree with that. Technology is neutral, but the importance is in the way in which it is applied. The commonwealth government has vacated the field on the development of offshore oil and gas in Australia, and particularly in Western Australia. Its view of the world is to leave it up to the companies because they know best. This report highlights that the companies do not know best and, particularly, they do not act in the state's interests and nor does the commonwealth.

MR J. NORBERGER (Joondalup) [10.23 am]: I take this opportunity to add my comments on this morning's tabling of the Economics and Industry Standing Committee report on the economic impact of floating liquefied natural gas on Western Australia. Before going too much further, I commence by thanking my fellow committee members: committee chair Mr Ian Blayney; deputy chair Hon Fran Logan, Mr Peter Tinley and Mr Shane Love. It has been an absolute pleasure working with my fellow committee members throughout this inquiry. I also acknowledge and sincerely thank the committee secretariat, Dr Loraine Abernethie and Mr Michael Burton, for their exemplary professionalism, hard work and support throughout this inquiry. Finally, throughout its inquiry the committee was fortunate to have the support and insight of Mr Bill Tinapple in his role as a technical consultant. Bill was an invaluable source of knowledge and I thank him very much for his contribution. I think it is also proper to acknowledge all of the organisations and individuals that made submissions or appeared before the committee, each doing so in a constructive and open manner. To that end I especially thank Woodside and Shell for their cooperation throughout this inquiry.

To understand why the committee's inquiry into the economic impacts of floating LNG is so important, it is helpful to understand the broader importance of the oil and gas sector to Western Australia and Australia in general. In 2012, Western Australia's petroleum production was valued at $24.43 billion. Western Australia is the largest producer and consumer of natural gas in Australia. A large component of Australia's natural gas production is converted into liquefied natural gas for export. Twenty million tonnes of LNG was exported from Western Australia in 2012–13 at a value of $12.5 billion. Importantly, Western Australia's LNG export industry is set to grow by more than 250 per cent over the next four years, to 50 million tonnes. Taking just the North West Shelf for a moment as an example and converting some of these export figures into economic indices yields the following insights: the North West Shelf alone has contributed over $70 billion towards Australia's gross domestic product, over $40 billion in increased household consumption, over $90 billion towards Western Australia's gross state product and over $900 million in local and state government revenue.

Historically, all of Western Australia's gas resources were piped to land-based processing facilities where the gas was either liquefied for export or pumped into the Dampier to Bunbury gas pipeline to supply Western Australian industry and homes with natural gas. Aside from the important fact that bringing natural gas to shore for processing provides Western Australia with ready access to its own gas reserves for domestic consumption, land-based facilities have historically created thousands of construction, fabrication and engineering jobs, as well as providing flow-on benefits to local communities. The emergence of floating LNG as an alternative to land-based gas processing is seen as a paradigm shift in the industry. Notwithstanding the admiration one can rightly have for the technological and logistical advances represented by the FLNG concept, the shifting of processing and liquefaction of gas offshore has significant impacts on Western Australia.

The short time that I have this morning to discuss the committee's report into floating LNG cannot possibly do the subject justice and so I just remind this house that my intention is purely to offer some highlights of the reports' findings that were of particular significance to me. In doing so, if I achieve nothing else, I hope I will arouse enough interest in this fascinating and economically significant subject that members of the broader public and members of Parliament will avail themselves of the full report. In its broadest and most obvious context, shifting gas processing and liquefaction offshore has the immediate impact of significant loss of work in the construction sector. Although the ever increasing move to modularisation has already had a significant impact on local fabricators even with onshore developments, one must only look at the sizable workforce engaged by Chevron and its contractors at Barrow Island to appreciate the impact that the loss of these construction jobs would have. Engineering and fabrication opportunities, which have already been under significant pressure, would only suffer more, considering that FLNG vessels are designed and fabricated wholly overseas. With no significant land-based componentry there is little room for involvement by local engineers or fabricators. For the state this results in a loss of revenue from payroll tax in addition to the much harder-to-quantify flow-on economic benefits that would have arisen from the spending of the otherwise employed workforce.

Although I fully acknowledge that the construction and commissioning of a major LNG project represents but a few years of what will ultimately be a 25 to 35-year project, it is nonetheless a significant impact. Perhaps the most obvious other impact of not bringing gas to shore for processing is the complete loss of natural gas stock for domestic consumption. Although Western Australia's domestic gas reservation policy is routinely lambasted by a number of industry bodies and proponents, the reality is that it has worked remarkably well in ensuring that Western Australians share in the benefit of the resources being extracted off our shore. It should also never be forgotten that it was the very fact that Western Australia committed to purchasing significant amounts of gas from Woodside at a time when demand was minimal that allowed the North West Shelf to become a commercial reality.

Woodside's desire to utilise FLNG technology for the Browse gas field was not actually the first time FLNG had been mooted for an Australian resource, that honour going to the Prelude field, also off WA's coast. The decision to use FLNG for Prelude did not raise as much concern given its remote location and small size—the very reasons that prompted investment into FLNG research in the first place. However, Browse is a large field, close enough to shore to make land-based processing an option. The retention leases that cover the Browse field, two controlled by the state and five controlled by a joint authority between the commonwealth and the state, all had a caveat requirement that called for onshore processing. A key finding of the committee, which certainly had an impact on me, was the manner in which the then federal resources minister, Hon Gary Gray, went about changing these conditions on the commonwealth retention leases. By way of a quick background, retention leases in commonwealth waters are jointly managed by the state and commonwealth. Although the commonwealth has ultimate veto rights in relation to decisions, such rights have historically not been used. In the past, the state and commonwealth governments have worked collaboratively to come to a mutually acceptable outcome. In the case of Browse, when Woodside requested that the land-based processing requirement condition be removed to facilitate the use of floating liquefied natural gas, Minister Gray, in the opinion of the committee, chose not to provide Western Australia a realistic time frame or an opportunity to understand the implications of Woodside's request or work constructively with the state to find a suitable outcome. The commonwealth, under the direction of Gary Gray, enforced its own decision to revoke the aforementioned conditions in the absolute minimum time that the act allowed it to.

This process also highlighted to the committee another shortcoming of the current joint authority operation, which is that the commonwealth relies far too heavily on data, analyses and recommendations made by proponents without doing sufficient due diligence or audit of supplied modelling and assumptions. Proponents have a legitimate requirement to seek the best possible outcome for their stakeholders, of which shareholders are primary amongst them. There is nothing sinister about that; indeed, it forms the basis of capitalism and free market economics. However, a government has equal responsibilities to its stakeholders, in this case the people of Australia. When dealing with a non-renewable resource such as gas, the benefit of the Australian people must be carefully considered. Although I realise it is desirable to offer proponents a speedy resolution so as not to create unnecessary bureaucratic hurdles, it is equally important to carefully weigh up all the options and test underlying assumptions and models before making significant decisions that will impact the economic wellbeing of Australians for decades to come.

One final observation that I feel will benefit being discussed in this forum is the oft-mentioned term “stranded gas”. This term was frequently used by industry proponents to justify the use of FLNG over traditional land-based processing solutions. The other frequent use of the term seems to be when justifying the extension of a retention lease by way of arguing that a particular gas field is currently not commercially viable for production. Often overlooked is that, although a particular field may indeed be uncommercial if developed by a particular proponent in isolation, there are often adjoining gas fields that may be controlled by other parties. Collaboration with these other parties could very well lead to a stranded field becoming viable. An interesting case in point is that the Prelude gas field, described as being not commercially viable for anything other than FLNG, is but a few kilometres away from the Ichthys field, which is piping gas commercially hundreds of kilometres to Darwin for processing. The apparent lack of industry players to entertain increased collaborative operations could easily be resulting in sub-optimal economic outcomes for Australia.

Let me finish by stating that although FLNG technology brings serious challenges to various local sectors of our economy, it also provides opportunities to adapt, innovate and ultimately prosper as Western Australia continues to develop itself into a major hub for oil and gas production and export.

I commend the committee’s report to the house.

MR P.C. TINLEY (Willagee) [10.32 am]: I again join my colleagues to make a contribution to the tabling of the second report of the Economics and Industry Standing Committee that I think is particularly important not just in the current context in which we find ourselves, but also to underscore in words the importance that Western Australia as a region plays in the global supply of gas. We are already noted as a global supplier of iron ore and other bulks, but as we move into becoming the second largest global supplier of gas, it is absolutely important that reports from committees like this add to the weight of evidence that supports both the magnitude and scope of the opportunity in Western Australia and adds tangibly to the details on how the best value can be unlocked.

It has been a pleasure to be a member of the committee. There is no person in the room, be they staff or a committee member, who is not committed to a better Western Australia and to a better extraction of our natural endowment, and every day working on the committee was a pleasure. As I said in my opening comments, if we call ourselves a global player in energy and gas, it is important that we also recognise the work done by this committee in the thirty-eighth Parliament. I refer to the discussion paper on Perth as part of a centre of excellence, and, of course, the very substantial and detailed report on domestic gas pricing, which deserves acknowledgement because this report nests inside the continuum of those issues and their contribution to it. There is now a growing body of information, literature and evidence in a concentrated form for policymakers on both sides of this chamber and for public servants to access that will lead them down a very clear path to extracting the best opportunities out of this resource. It has therefore been a great pleasure to be on the committee and I endorse wholeheartedly the report.

We learned a little trick that if the terms of reference are too broad, the committee can go too long and it can dilute the outcomes. However, when it came to talking about something like the impacts of floating liquefied natural gas on our economy, there was plenty to talk about and plenty of meaty recommendations and findings that came out of it. I note that the findings have been talked about quite ably by my colleagues on the committee—the chairman, deputy chair and member for Joondalup. I endorse most of what they have said, except to say this: the premise for our committee investigating this issue was that we had a capacity to fight FLNG, and that we somehow at the state jurisdiction had the capacity to stop it and convert it to the obvious return that would be derived from onshore processing. That is clearly not what the committee ended up finding, obviously. We found that the debate is over. We found that FLNG is a reality. It is going to happen in that as much as 10 of these vessels will be off the coast of Western Australia in the future. We need to understand the reality of the fact that we are excluded from decision-making in a yes or no argument. The only thing that can change that is the federal government. The federal government has to grow the spine and has to have the backbone to stand up to these companies that would exploit the natural endowment of this state and this country solely for the shareholders of their companies. The federal government has a wider constituency. This country is extremely open for business. We reject completely any notion that this report is somehow trying to control markets or somehow trying to constrain profits, or that the objective of this committee, this state or this country would somehow risk the business and the risk capital that goes into these very large and substantive processes; that is clearly not the case.

This is not a case of black and white insofar as the state and the market should be separated and there is no role for the state in the market. We are a trade-exposed economy. We are an internationalised economy. We have the lowest tariff walls of any country in the Organisation for Economic Cooperation and Development. Nobody can point the finger at this country and say that we are not open for business. The time has come for this country and this state as the vanguard of the application of a new technology such as FLNG to stand and say that the state has a role and a right to participate in the extraction of that natural endowment.

We are seeing here with FLNG, as we found in our inquiry, a situation at the intersection of what is right and what is wrong with Federation. As was highlighted by the member for Cockburn, if there has not in fact been a lack of cooperation in spirit of the idea of joint authority, it has been obviated, circumvented and usurped. That is of itself worrying. However, another worrying component is that no indication has been forthcoming from the commonwealth that it is sympathetic in any context to the idea that we should extract the local value. Right now the Prime Minister and his Treasurer have sent a very clear call to the states that something is broken and we have to fix it. The Prime Minister himself, in the release of his recent budget, said that it is up to the states to fix the problem. We do not have to start at the GST to fix the problem. We can start at honouring the spirit of the arrangements of our joint authority. We can start by honouring the idea that the state has to find some economic benefit from the outcomes of these sorts of projects. We have the remit to do that, and the report contains plenty of recommendations and findings that can assist in that. At this point I should say that this is not an all-out assault on companies. They are being consistent with their own charter, which is to extract shareholder value, and they cannot be faulted for that. We had any number of company executives willingly coming to the committee to help us understand their position and the situation in the industry and why they were making the decisions they were making. Whether we agree with them and whether they are right or wrong is in the report for all to read.

One of things that became clear in the response of one witness after another, in closed and open session, when we asked companies about their activities globally and their acceptance of local rules on such things as local content and extraction of dividend for local communities was, in essence, "If you don't make us do it, we won't do it." There has never been a clearer call for the need to legislate to ensure that we get the best extraction of value for our shareholders—the constituents of Western Australia. The opposition twice bowled up in private members' business a bill to provide for local content. The opposition moved to ensure that we extracted good value for our resources, but when the rubber hit the road, the government was found wanting. The reason I say that we need legislative responses to this—I am not an advocate of more laws, but it is warranted in this case—relates to another thing the companies said to us. Like every other business, companies want certainty. The certainty is not in policy, because government policy changes as the executive government moves from one side of politics to the other. Legislation gives companies certainty that the playing field into the future is defined. That is the opportunity for the government, and the report contains plenty of findings and recommendations to support that position.

I need to conclude my remarks, although I could bang on all day on some of these issues. I have talked about the impact of the report. I thank my colleagues on the committee, and the committee staff—the principal research officer, Dr Loraine Abernethie; research officer, Mr Michael Burton; and, of course, assisting them is Mr Bill Tinapple.

MR R.S. LOVE (Moore) [10.42 am]: I rise to the conclude the debate this morning on the second report of the Economics and Industry Standing Committee, "The economic impact of floating LNG on Western Australia" and the future that it holds for Western Australia. I start off by acknowledging the work of my fellow committee members. The speech given today by the member for Joondalup was a very good encapsulation of much of the background of this whole matter. I thank in particular the chair, the member for Geraldton, whose very level-headed methods have seen us deal with some very high-powered executives in organisations—he handled it all very well. I thank our technical expert, Bill Tinapple, for the advice we received, and our able staff members, Dr Loraine Abernethie and Michael Burton—very well done to all.

As we know, Western Australia is still in a construction boom, but it seems certain that in the very near future, with the conclusion of the construction stage of large projects such as Gorgon that are currently underway, the books will be somewhat empty for most of our engineering and manufacturing workforce. That is a very worrying scenario and one that warrants a great deal more attention from government in terms of modelling to understand exactly what those impacts will be. One of the difficulties this committee faced was getting a clear understanding of the costs to the state and the government from not just direct revenue to the state but also economic activity within the state. At the moment, it is incalculable, but it needs to be calculated.

The perception that has built up through some of the cost blowouts in projects such as Gorgon is that Western Australia is a very high cost place to do business. That is doing Western Australia a lot of harm in attracting further projects and further manufacturing effort. There also seems to be a perception amongst world-class companies that Western Australia lacks capacity to undertake complex manufacturing tasks. That is at odds with the facts, when we consider that Western Australia successfully built the first of the gas plants in our north, largely designed and built by Western Australian companies. We have seen that effort diminish over the years as a result of changes in design and modulisation technology, with a lot of the componentry being built elsewhere. It has been a very serious matter for our industry, and I think it will all come to a pointy end when these large projects we have at the moment finally end.

We have heard today from other committee members about the closeness, geologically and geographically, of the Prelude gas field to another site, the Inpex Corporation project at Ichthys gas field. That puts to bed the idea that floating liquefied natural gas production is all about geologically and geographically difficult circumstances. A number of other circumstances conspire to ensure that in future FLNG is the way that the industry will be conducted off our coast. One of those is the capital certainty that companies face. There is a cost to build a FLNG unit, but once those units become somewhat standardised, one would expect that the cost the companies face when developing projects will become certain. It will be much easier for them to understand the economics behind the project and its viability or otherwise. I will refer briefly to the figures. The report shows that in 2009 the Gorgon project was costed out at roughly $37 billion. We heard evidence in 2013 that that had been revised up to $54 billion, and at that point it was only three-quarters of the way constructed. Those sorts of figures, understandably, would make many boards quite nervous when making investment decisions and would certainly encourage them to take the much more certain path of investment in FLNG.

We have seen, too, with the situation at the Ichthys and Prelude sites that sometimes it is not so much a stranding of the gas geographically but it concerns some form of corporate governance. Many of the complex joint venture arrangements behind many of the projects do not always have the same values and the same sort of investment capacities, therefore, joining together seems to be a problem for them. Even though within them there may be common partners, the percentage that each owns in a particular project makes it difficult for them to work together effectively and cooperatively to develop the resources off our coast. That is a great loss of potential for Western Australia, and I will come to that in a moment.

The development of FLNG technology has a couple of other ramifications that perhaps are unseen by the companies at this stage. One of them I see is that retention leases at the moment typically operate on the basis that a project is deemed to be not yet commercially viable in a five-year horizon but perhaps will be within 15 years. The argument that a particular gas field is not economically viable becomes much more difficult to assess if it is a matter of picking up a vessel from somewhere, plugging it into a bit of subsea work and starting to produce gas. It is a much less complex task and a known financial cost. Some of the long-held retention leases will have to be revised as a consequence of this new technology. Although a lot of the gas is held by the Australian government, yesterday and today we have heard that Western Australia's share of one of the major fields at Browse has increased dramatically, and that has some great ramifications for the state's bargaining position in these matters.

Another matter that surprises me concerns the current discussion about the minerals resource rent tax introduced by the previous federal Labor government. We have seen an exposure draft of the Minerals Resource Rent Tax Repeal and Other Measures Bill 2013, but it does not mention the repeal of the petroleum resource rent tax that was extended to include onshore gas resources at the same time as the minerals resource rent tax was introduced. That is, in effect, a new tax, but there has been no discussion about that tax being dropped. That will have ramifications for not only the close-to-shore gas in Western Australian waters, but also future unconventional onshore gas sources being considered in the Kimberley and elsewhere.

The appropriateness of Western Australia's domestic gas policy has been an issue of contention between gas producers and gas users. The committee feels strongly that the current domestic gas policy has been right for the state in the past because it has enabled the state to have a competitive advantage at least in the cost of energy. Other members of the committee have said that those arrangements are threatened because the original contracts are coming to an end on the North West Shelf and because floating liquefied natural gas will not be provided to Western Australia because the fields are located in commonwealth waters and the gas will not be onshore in any form. That means that if we want to continue with our domestic gas policy, whilst we might appreciate and want to hold onto that domestic gas being brought into Western Australia, we will have to review how to achieve that. The old ways are not necessarily going to work in the future. Although I am strongly supportive of the domestic gas policy, we need to review how to achieve that in the future.

I am just about out of time, but I would like to conclude by once again thanking everyone involved in the report, including all the people who gave evidence and forwarded their views. I recommend that anybody interested in the economic wellbeing of both Western Australia and Australia get a copy of the report and read it thoroughly.