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Strictly Confidential

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Mr Ian Blayney MP
Chairman – Economics & Industry Standing Committee
Parliament House
Perth WA 6000

Dear Mr Blayney,

Re: FLNG Inquiry

Thank you for your letter dated 11 November 2013 on behalf of the Economics and Industry Standing Committee, requesting further information to that provided by Chevron on 24 October 2013.

The following material addresses the specific questions raised in your letter, and provides additional context to the challenges being faced by industry regarding Australia's comparative productivity and efficiency in the global context.

A lower level of productivity than was anticipated has been achieved at Gorgon Project's marine loading facility at the Australian Maritime Complex (AMC), Henderson for the period encompassing Gorgon construction. The productivity performance has been benchmarked against accepted and reasonable industry norms. In addition it was acknowledged during the hearing that unfavourable weather conditions have impacted on productivity performance particularly in transporting material to Barrow Island.

The limited footprint for the Gorgon Project on Barrow Island has ensured challenges and has impacted overall project productivity. These issues have been instrumental in our recent request to seek land additional to the 300 hectares prescribed in the Barrow Island Act 2003.

With respect to question 3 of the many other factors impacting on productivity at the AMC the receiving of imported components has not been material.

In the past month, further concerns about Australia's declining cost competitiveness have emerged.

The International Energy Agency's World Energy Outlook 2013 notes, among others:

"Commitments to new resource developments in Australia have slowed markedly over the last year or so, and the prospects for another round of major Australian LNG projects will depend heavily on how costs evolve, on the deployment of new, potentially less costly technologies, such as floating LNG, and on competition from other regions, notably North America."

In other words, Australia's increased costs and declining productivity are driving the move to consider FLNG projects and alternative opportunities in other parts of the globe.

Earlier this year Chevron Corporation's Chief Financial Officer stated in a market update, that proposals to expand Gorgon with a fourth LNG train were being challenged because of the high cost structure. This means the proposed Gorgon expansion will need to be assessed against other opportunities in the global portfolio.

This view is consistent with the finding of the previous Labor Government's Energy White Paper which states, "In many ways, Australia is a high-cost producer compared to many other potential energy suppliers."

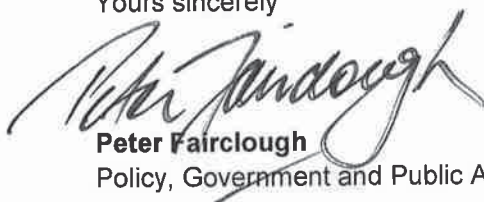
The Business Council of Australia (BCA) provides further evidence of Australia's eroding international competitiveness. Research conducted by the BCA found resource projects in Australia are 40 per cent more expensive than in the US Gulf Coast. It also reported the Australian workforce on such projects to be up to 60 percent less productive than its US counterparts.

The BCA noted the rapid development of emerging markets and economies will account for up to 75% of global economic growth by 2025 and Australia is uniquely placed to increase exports into these growth markets. Policy and regulatory settings which impact on productivity and international competitiveness will limit Australia's natural geographic advantage in entering these new markets.

APPEA's submission to this Inquiry presented McKinsey data indicating the growing demand for LNG, particularly in the Asia Pacific, is being matched, over time, by increased supply. This supports Chevron Australia's view that there is a narrow window of opportunity within which Government industry need to work together on productivity reform and establishing policy and regulatory settings which ensure Australia captures the next wave of investment for major resource project

Thank you for the opportunity to update Chevron's evidence to the Committee.

Yours sincerely



Peter Fairclough
Policy, Government and Public Affairs General Manager