



HARVARD BUSINESS SCHOOL EXECUTIVE EDUCATION  
BUILDING BUSINESSES IN TURBULENT TIMES • APPLY ONLINE

Economist.com

**BUSINESS**

**LNG expands in Australia**

## Explosive growth

Nov 19th 2009 | SYDNEY  
From The Economist print edition

**Australia is becoming one of the world's biggest exporters of gas**

Alamy



**Wallaroo the hell are you?**

WALLAROOS, bandicoots and other marsupials on Barrow Island off the north-west coast of Australia will watch curiously over coming months as workers start building a huge plant to liquefy natural gas there. The project, called Gorgon after the group of gasfields lying under the seabed nearby, had been on the drawing board for 30 years before a surge in demand for gas from booming Asian countries finally got things moving. Jon Chadwick, an executive vice-president at Royal Dutch Shell, which is involved in Gorgon and several other liquefied natural gas (LNG) schemes nearby, predicts that by 2020 Australia could become the world's second-biggest exporter of LNG (it is now fifth), surpassed only by Qatar.

Australia has long been considered a "lucky country" thanks to its wealth of natural resources. Prodigious exports of iron ore, coal and other commodities have helped it survive the global downturn without a recession. Ken Henry, Australia's most senior financial bureaucrat, talks of "a period of unprecedented prosperity" ahead. If so, gas will be one of its main drivers, dwarfing even earlier resource booms in its scale.

Most of Australia's gas, like the Gorgon field, lies under the Indian Ocean off the near-deserted northern coast of the state of Western Australia—a long way from the country's big cities, where most electricity is produced from coal. But by comparison with other big exporters, it is not far from Japan and South Korea, Asia's biggest importers, or China and India, the fastest-growing markets. The sums being invested are huge: Pluto, a big project being developed by Woodside, a local firm, has a price tag of A\$12 billion (\$11 billion); the expected bill for Gorgon, a joint venture between Chevron, Exxon Mobil and Shell, is roughly four times that.

Martin Ferguson, Australia's Resources Minister, says Gorgon and Pluto could double the value of Australia's LNG exports to A\$24 billion a year in eight years. If eight other projects under consideration get the nod, export earnings could increase by a factor of five. This month Australia's central bank projected that investment in LNG would account for 2.5% of economic output in five years, a fivefold increase from now. George Kirkland of Chevron says if Saudi Arabia is all about oil, "Australia is all about gas." Australia's gas reserves rank only 14th in the world, according to BP. But proximity to Asia, a search for cleaner fuels than coal (Australia's biggest export) and political and economic instability in rival supplying countries have helped turn Australia into the "optimum place" for LNG projects, according to Don Voelte, Woodside's boss.

New technology should help open up yet more fields. Shell is working on a plan to install the world's first floating liquefaction plant at two fields north of Gorgon. This will save the expense of building pipelines to plants onshore and thus allow "stranded" gas, once thought unviable, to be exploited. What is more, it would allow the plant to be reused, reducing the expense of tapping new fields yet further. And on the other side of the country, in the state of Queensland, investors have started pouring money into plans to convert gas from coalfields into LNG for export—the first projects of their kind in the world.

Problems such as the labour shortages of earlier booms seem likely. As it is, Western Australia's remote mines and construction sites struggle to attract enough workers. The Australian Petroleum Production and Exploration Association, an industry body, says Gorgon and all other proposed projects will need about 50,000 workers over the next 15 years. The federal government has set up a task force to figure out how to find them.

Environmental concerns could also prove nettlesome. A recent spill from an oil rig off Australia's northern coast took ten weeks to plug, prompting activists to redouble their opposition to oil-and-gas development along Western Australia's pristine coastline. Yet the Gorgon consortium has scored green points with its plan to rebury the carbon dioxide it pumps up along with the field's gas.

So far, Australia's LNG industry seems to have sidestepped the biggest potential problem altogether. "You might have thought the global financial crisis would have slowed things down," says Graeme Bethune, chief executive of Energy Quest, a consultancy. "But it hasn't. That shows the global appetite for gas projects. They just haven't paused."

Copyright © 2009 The Economist Newspaper and The Economist Group. All rights reserved.