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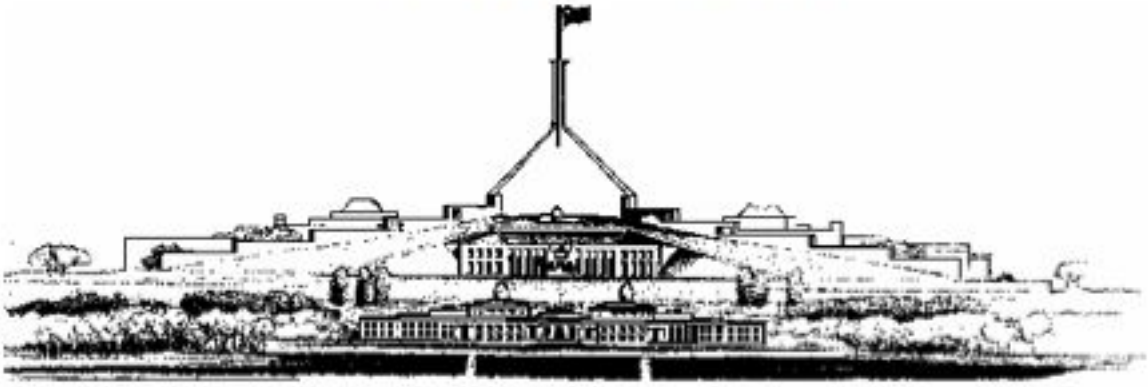

HOUSE OF REPRESENTATIVES

ADJOURNMENT

North West Shelf: Shell

SPEECH

Wednesday, 4 April 2001

BY AUTHORITY OF THE HOUSE OF REPRESENTATIVES

SPEECH

Date	Wednesday, 4 April 2001	**Source**	House
Page	26465	**Proof**	No
Questioner		**Responder**	
Speaker	Cox, David, MP	**Question No.**	

Mr COX (Kingston) (7.52 pm)—On 6 February, when I made my first comments in the House about Shell's bid for Woodside, I identified a major national interest issue which the government has still not satisfactorily resolved. In the case of this application, the national interest is that exploration and development of the North West Shelf not be impeded by the conflicting interests of Shell. Those conflicting interests are Shell's natural gas projects in Oman, Brunei, Malaysia and Sakhalin Island, each of which competes with the North West Shelf in the Asia-Pacific for long-term gas supply contracts.

While Shell have had an economist promote the theory that Shell's shareholders are best served by allowing each of these projects to compete on its merits, the commercial reality is that Shell's management in The Hague will not be indifferent as to which project wins when each new multibillion dollar LNG contract is negotiated. Indeed, Shell's objective in its bid for Woodside is not just to increase its stake in the North West Shelf, with its enormous natural gas reserves. Shell's objective is to make the North West Shelf fit into Shell's global LNG strategy.

The North West Shelf's interests—and therefore Australia's interests—are not necessarily aligned with Shell's global natural gas strategy. That was underlined by a candid comment made by Raoul Restucci that was published in the *Evening News* on 15 December last year. I happen to have a copy of the paper here. It reads:

> If Shell wins control after the shareholder vote, probably in late March or April, it will aim to stop Woodside from competing directly with Shell, as it has in liquefied natural gas receiving terminals in China and India.

Raoul Restucci's name is probably well known to Woodside shareholders because he signs most of the letters from Shell to them regarding the offer. The fact is that Shell has failed to deal with these comments and has instead dissembled. The CEO and chairman certainly did not have a coherent explanation when I raised the matter with them. Raoul Restucci did not deny saying it when Laura Tingle of the *Sydney Morning Herald* put it to him—he just said it had to be taken in context. The context it has to be taken in is Shell's bid for Woodside.

That let the cat out of the bag. Now another cat is out of the bag, courtesy of Dow Jones and Reuter's reports from South Korea. According to a Dow Jones report datelined Seoul 28 March 2001, South Korea's deputy energy minister, Lee Hee--Beom, and Shell International Gas chief executive Linda Cook were to meet last Wednesday to discuss Royal Dutch Shell Group's interest in taking a 15 per cent stake in the state run Korea Gas Corporation, Kogas, and South Korea's possible participation in the development of a natural gas project on Sakhalin Island. Linda Cook was reported to be also meeting with Kogas president and chairman Kim Myung-Kyu on the same matters. This report was attributed to a ministry official. A Kogas official said that Shell is the frontrunner for the 15 per cent stake in Kogas and the company hopes to conclude the $400 to $500 million transaction by the end of the year.

According to the report, the deal is far enough advanced that the terms are currently being vetted by the Ministry of Commerce, Industry and Energy. Those conditions include a seat for Shell on the Kogas board. That is not remarkable. But of more interest is Kogas's agreement to purchase LNG from one of the major gas fields in which Shell has an interest. If Shell is getting Kogas to take a stake in Sakhalin, you do not need an ounce of commercial wit to realise that by this acquisition of a 15 per cent stake Shell is locking in Sakhalin Island for the supply of the next big tranche of gas to South Korea. According to a Reuter's report, also of 28 March, a Kogas official said:

> We know that the government [of South Korea] is considering a proposal from Russia to invest in oil and gas projects in Sakhalin. But no decision has been made yet.

The proposal was apparently put by a Russian delegation which accompanied President Vladimir Putin on his state visit to South Korea in late February.

As I have said before, Shell's interests are not synonymous with Australia's. Shell has other interests and other governments to placate. South Korea and Kogas are, of course, a major potential market for LNG from the North

West Shelf. Such a contract could underpin development of a fifth LNG train for the North West Shelf. There can be no clearer demonstration of the interests that Shell has that conflict with the optimal development of the North West Shelf. The Sakhalin supply to Korea is not hypothetical. Apparently the major outstanding issue with the Korean energy ministry is the size of the contract. They have concerns that it is too large. The energy ministry is apparently grappling with the problem of dealing with Korea's existing LNG contracts as part of their privatisation of Kogas.

An outcome for the present Shell bid for Woodside that protects Australia's national interest—one that ensures that the development and marketing of North West Shelf gas can be conducted in a manner which is independent and not subject to undue influence from Shell, with its conflicting interests—would not stop Shell using its leverage in the region to achieve an outcome like a sale from Sakhalin to Korea. But it would reduce Shell's capacity to lay a dead hand on the North West Shelf partners' efforts to be as competitive as possible in seeking those market opportunities. We are not talking small beer here. According to Dow Jones, local Korean reports put Shell's ambitions for the Sakhalin contract to Kogas at 3.5 million tonnes per year for 25 years. *(Time expired)*