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Financial crisis hits LNG: Don Voelte

Cath Hart | *October 14, 2008*

OIL prices are likely to continue to fall and petroleum producers will be forced to overhaul plans because of global financial volatility, Woodside boss Don Voelte has warned.

Mr Voelte said yesterday Woodside was well placed to withstand the downturn because it had paid down a lot of debt while oil prices were high but he revealed that the gas major was in a hiring freeze.

Analysts from Citigroup and Morgan Stanley said that Woodside, Chevron and other liquefied natural gas producers might delay committing to new projects because of lower crude oil prices and the difficulty in raising finance.

LNG prices in long-term contracts may be linked to the price of crude oil, which has fallen more than 45 per cent since reaching a record $US147.27 a barrel on July 11.

Mr Voelte said the fall in the oil price would not affect Woodside's projects and that the falling Australian dollar had been a positive for the company, which earns most of its revenue in US dollars.

"All of our oil projects were built at much less than what we are receiving at this time and have received over the last 12 months," he said.

"Our justifications for Neptune, Vincent, Stybarrow and Enfield were all in the $US30-$US35-$US40 range, so we're in good shape in all those projects financially -- in fact we've paid off a lot of those projects much earlier because of higher oil prices.

"As to LNG, they're based on long-term contracts. Some have floor prices in them, so I think it will have a moderating effect from the lower oil prices."

But there would be "fallout" from other companies, he said.

"Liquidity in a credit crisis is very dramatic in terms of what it does to companies. A lot of companies with high gearing that have made big acquisitions are heavily in debt. This will just cancel their plans," he said.

"Even a company like ours, which is strong and the biggest company in WA -- we've frozen jobs hiring ... for the next couple of quarters."

Morgan Stanley energy analyst Stuart Baker said oil and gas companies had "just assumed oil prices would hang in and the money would flood in".

"Well, the game has just changed in the past two weeks," he said.

Citigroup oil and gas analyst Di Brookman said the most expensive projects, such as Woodside's proposed Browse LNG and Chevron's Gorgon off northwest Australia, might be worst affected by the volatility.

Chevron's proposed Gorgon LNG project -- which a spokeswoman said was making good progress and had recently received an additional $1 billion in funding -- had already been delayed several years and was first put on hold in 1998 when the Asian economic crisis hit.

Exxon Mobil's proposed $11 billion LNG project in Papua New Guinea, due to start shipments in late 2013 or 2014, is one of the best placed.

Ms Brookman said onshore LNG projects proposed by Petronas, Santos, ConocoPhillips, Origin Energy, BG and Queensland Gas on Australia's east coast -- which have higher rates of return than WA's offshore ventures -- might be better placed to weather the effects of lower LNG sales prices and tighter credit markets, Ms Brookman said.

Additional reporting: Bloomberg