Shale Boom Transforming U.S. Industry to Boost BHP, CFO Says (1)

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(Updates with chairman's comments in 20th paragraph. For more Bloomberg Australia Economic Summit Coverage, see EXT3 < GO>.)

By James Paton, Laurie Hays and Soraya Permatasari

April 11 (Bloomberg) -- BHP Billiton Ltd., the biggest mining company, said the shale boom in the U.S. will spur an industrial revival and transform the world's largest economy.

"There are always opportunities for exports in the U.S. and Canada, but I think there's a push and a growth of re-industrialization in the U.S. that will consume a lot of the energy in that country and give them a great opportunity to grow going forward, and we're well positioned for that," BHP Chief Financial Officer Graham Kerr said yesterday at the Bloomberg Australia Economic Summit.

In contrast, in Melbourne-based BHP's homeland, Australia, companies from Chevron Corp. to ConocoPhillips are investing almost $200 billion on plants to export liquefied natural gas to Asia. Under outgoing Chief Executive Officer Marius Kloppers, BHP spent $20 billion in 2011 buying shale assets in the U.S. to tap a projected increase in demand for energy.

"The energy division is very important to BHP and perhaps it didn't receive much investment in the previous years so they needed to underpin the growth story there," Tom Price, a Sydney-based analyst at UBS AG, said yesterday in an interview at the economic summit. In terms of strategy, "they seem to have positioned themselves well," he said.

U.S. crude-oil output in the fourth quarter this year will exceed imports for the first time since 1995, as fields in North Dakota and Texas put the nation on track to surpass a production record set a quarter-century ago, the U.S. Energy Information Administration said last month. Domestic gas output is forecast by Bloomberg New Energy Finance to increase 25 percent by 2020.

Beat Saudis

The U.S. will surpass Saudi Arabia in oil production in the next decade, making the world's biggest user almost self-reliant, the International Energy Agency said last year.

"Traditionally they have been short energy" in the U.S., Kerr said. Now the shale opportunity is "hard not to be excited about. It's transformational," he said.

The U.S. shale-gas revolution, which has revitalized chemicals companies and prompted talk of domestic energy self-sufficiency, is attracting a wave of investment that may revive profits in the steel industry.

Austrian steelmaker Voestalpine AG last month chose Texas as the site for a new 550 million-euro ($721 million) factory, to benefit from cheap gas, while Nucor Corp., the most valuable U.S. steelmaker, plans to start up a $750 million Louisiana project in mid-2013.

Fortune Reversal

There's been a reversal of fortune for chemical producers after years of decline. Shares of LyondellBasell Industries NV have more than doubled since it emerged from bankruptcy in 2010. It's now among chemical producers planning billions of dollars of plants around the Gulf of Mexico to gain from cheaper gas. Fertilizer companies including CF Industries Holdings Inc. also are planning to build gas-fueled plants.

Shale oil is the "next energy revolution," with output accelerating in the U.S. at a rate of about 26 percent a year since 2004, PricewaterhouseCoopers said in a February report.

"It's liquids that can really transform the U.S. economy," Jock O'Callaghan, the energy, utilities and mining leader for PwC Australia, said in an interview yesterday in Sydney, where he attended the Bloomberg summit.

BHP plans to focus on higher-priced liquids in the Eagle Ford region of Texas after buying Petrohawk Energy Corp. for $15.1 billion, including debt, Kerr said. BHP, which also purchased assets from Chesapeake Energy Corp. for $4.75 billion, is spending $4 billion this fiscal year on shale.

Self Sufficient

"Today, the majority of our drill rigs and our operations are focused toward building out and developing our liquids-based business in shale in the Eagle Ford," Kerr said. "That continues to be the path that we go down because that's where we see the highest returns."

The boom in oil and gas production has helped the U.S. cut its reliance on imported fuel. The U.S. produced 84 percent of its own energy in 2012, the most since 1991, EIA data show. The measure of self-sufficiency rose to 88 percent in December, the highest since February 1987.

Hydraulic fracturing of shale formations in the U.S. has boosted supplies of gas and sent prices tumbling. The process, in which water, sand and chemicals are injected into shale to release gas, has drawn opposition from environmental groups concerned about tainted water supplies and air pollution.

CEO Kloppers gave up his fiscal 2012 bonus after booking a

$2.84 billion charge last August to write down the value of the shale gas assets in the U.S. after prices fell. BHP's copper unit head Andrew Mackenzie will take over from Kloppers in May.

Questionable Spend

The strategy in buying the assets is fine, UBS's Price said. "It's the price they paid and the timing of that investment that's questionable. They just seemed to have rushed into it without properly analyzing it, that's the market view."
In the U.S., policymakers and industry leaders are divided over how tightly to control gas exports for fear of driving up domestic energy prices. Three gas export projects got approval to ship LNG from Canada's Pacific Coast to destinations such as Japan and China, compared to just one in the U.S., on the Gulf Coast, according to data compiled by Bloomberg.
The U.S. "should encourage the export of their onshore oil and gas because that would have geopolitical benefits around the world, apart from the fact it would create a lot of highly skilled jobs," BHP Chairman Jac Nasser said after a speech today in Melbourne.

Record Gas

In Australia, BHP is a partner in Woodside Petroleum Ltd.'s North West Shelf LNG development in Western Australia. The cost of the project, which started shipping LNG in 1989, was A$27 billion, according to Woodside's website.
Near-record gas demand from U.S. electricity generators has driven prices back up to more than $4 for the first time since September 2011 even as output climbs. Natural gas yesterday rose 0.4 percent to $4.032 per million British thermal units on the New York Mercantile Exchange.
"What we've seen is people switch, for example with power stations, from coal to gas quicker than we expected," Kerr said.
Gas futures have doubled since trading at a 10-year low as utilities switched from coal and unusually hot weather spurred cooling demand. Gas futures averaged $5.93 per million British thermal units in the five years through 2011, before prices collapsed to a decade low $1.902 in April 2012.
The shale-energy revolution is "going to be something that we're going to be hearing more about over time," said Paul Xiradis, chief executive officer at fund manager Ausbil Dexia Ltd. in Sydney. The timing of BHP's acquisitions wasn't perfect though , "5, 10 years from now, I'm sure we would look back and say what a great acquisition it was," he said.

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--With assistance from David Stringer in Melbourne. Editors:
Keith Gosman, Jason Rogers

To contact the reporters on this story:
James Paton in Sydney at +61-2-9777-8698 or
jpaton4@bloomberg.net;
Laurie Hays in New York at +1-212-617-6517 or
lhays1@bloomberg.net;
Soraya Permatasari in Melbourne at +61-3-92288720 or
soraya@bloomberg.net

To contact the editor responsible for this story:
Jason Rogers at +65-6231-3673 or
jrogers73@bloomberg.net