



MEDIA RELEASE

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INQUIRY NEEDED TO FILL GAS GAP

Following the release of the Federal Government's Energy White Paper, manufacturers from across Australian industry are today jointly calling for a dedicated and independent inquiry to resolve serious questions about domestic gas supply and prices in light of the expected massive increase in gas exports.

The Australian Aluminium Council (AAC), the Australian Food and Grocery Council (AFGC), the Australian Industry Group (Ai Group); the Plastics and Chemicals Industries Association (PACIA) and The Australian Steel Institute are concerned that the Energy White Paper has not adequately addressed the risk of a 'gas gap', despite foreshadowing other important energy reforms.

Ai Group Chief Executive, Innes Willox, said: "Natural gas is an efficient and clean-burning fuel for manufacturing industries and is an essential feedstock at the foundation of many chemicals industry value chains. Gas is also increasingly crucial to our broader economy, especially in providing peaking power and cleaner baseload supply in the electricity system.

"Any threat to the supply and affordability of gas is therefore a serious matter. The Government proposes sensible measures to boost gas production and increase transparency; these steps are necessary - but may not be sufficient to solve the problems facing domestic gas users. Minister Ferguson is absolutely right to reinforce the importance of a free and transparent market in natural gas - exactly what we are calling for. However, we are deeply concerned that the white paper fails to tell us how this might be expected to occur. Wishful thinking is no substitute for a strategy," Mr Willox said.

PACIA Chief Executive, Margaret Donnan, said: "The coming expansion of Liquefied Natural Gas exports from Australia's east coast offers many benefits. But as the experience of Western Australia suggests, and as recent research conducted for PACIA and Ai Group confirmed, the immense quantities contracted for export risk squeezing domestic consumption, and tie us to the East Asia gas market – the most expensive in the world."

AAC Executive Director, Miles Prosser, said: "Large gas users are already finding it extremely difficult to secure new long-term supplies to underpin investment, despite claims that there is plenty of gas available.

"There is a risk that problems around access will compromise investments and expansion of value-adding industries. This will have serious implications for jobs and the regional communities in which they operate," Mr Prosser said.

AFGC CEO, Gary Dawson, said: "For businesses already squeezed by rising input costs and retail price deflation, the potential for higher gas prices could damage the viability of Australian manufacturers and runs the risk of driving more production and jobs offshore."

The Report of the Non-Government members of the Prime Minister's Task Force on Manufacturing recommended that the ACCC conduct an investigation of competition in the upstream supply of gas in Australia, and that the Productivity Commission undertake an inquiry into lease provisions and the supply of gas into the domestic market.

"Our organisations urge the Government to adopt this recommendation and commission an independent inquiry into potential market failures and risks in gas supply. There is an immediate supply squeeze which must be recognised and dealt with, as well as longer term challenges. If we do not fully consider the risks – and the merits and weaknesses of potential solutions – the issue will come back to haunt us for years to come," Mr Willox said.

Large scale export of East Coast Australia natural gas: unintended consequences, a report by the National Institute for Economic and Industry Research to Ai Group and PACIA, can be found at www.aigroup.com.au/policy/reports.

Media enquiries

AAC	Miles Prosser – 0429 923 605
AFGC	James Mathews – 0407 416 002
Ai Group	Tony Melville – 0419 190 347
PACIA	John Osborn – 0417 997 774

Fact sheet: natural gas in Australia

Resource & Reserves

Australia currently has 149,305 petajoules (PJ) of economically demonstrated reserves of natural gas - proven supplies that are known to be economically recoverable with current technology. The total resource, including identified, potential and undiscovered sources, could be as large as 900,000 PJ, though much of this might not be economically recoverable unless selling prices were very high.

Production

In 2010-11 Australia produced 2095 PJ, of which 1393 PJ came from the West and 664 PJ from Eastern Australia and production is expected to rise to 5663 PJ by 2034-35.

Domestic consumption

Altogether, domestic gas users (industrial users, electricity, households) used 1515 PJ in 2010-11.

Feedstock

Natural gas can be burned for energy, but it is also widely used as a 'feedstock' - gas is transformed into useful products in the plastics and chemicals industries.

Export scale

Exports of natural gas were 760 PJ in 2010-11, almost all from Western Australia. Exports from Eastern Australia are expected to reach at least 1332 PJ by 2020.

Environmental impacts of gas

Combustion of natural gas produces significantly less carbon dioxide emissions per unit of energy than does coal. Australia's electricity generators produce around 1 tonne of CO₂ per megawatt hour; an efficient combined-cycle gas plant produces around 0.4 tonnes per MWh.

Output gap

NIEIR's finding was that if gas exports displace domestic use, each petajoule of gas shifted away from industrial use towards exports means giving up \$255 million in lost industrial output for a \$12 million gain in export output. That is, for every dollar gained \$21 is lost.

Our organisations

The Australian alumina and aluminium industry is Australia's highest value add processor of resources and the largest processed export earner. Operations in the Australian alumina and aluminium industries have a replacement value of over \$50 billion and annually produce more than \$14 billion of product. The industry directly employs around 17 000 people, many in regional areas. Applying a typical multiplier of three this means the aluminium industry provides direct and indirect employment for around 45,000 people in Australia.

AFGC is the leading national organisation representing Australia's food, drink and grocery manufacturing industry. With an annual turnover of \$108 billion, Australia's food and grocery manufacturing industry is Australia's largest and most important manufacturing industry and is the second largest industry behind the Australian mining sector. The food and grocery manufacturing sector employs more than 312,000 Australians.

Ai Group and its affiliates represent the interests of more than 60,000 businesses in an expanding range of sectors including: manufacturing; engineering; construction; automotive; food; transport; information technology; telecommunications; call centres; labour hire; printing; defence; mining equipment and supplies; airlines; and other industries.

PACIA is the pre-eminent national body representing Australia's chemistry industry. The chemistry industry is the third largest manufacturing industry in Australia with a turnover of approximately \$33.6 billion. The sector directly employs approximately 83,000 people with wages and salaries of \$4.9 billion. The sector represents between 9 and 10 per cent of total Australian manufacturing activity and provides industry value add of \$11.5 billion. PACIA members include chemicals manufacturers, importers and distributors, logistics and supply chain partners raw material suppliers, plastics fabricators and compounders, plastics and chemicals recyclers and service providers to the sector.

The Australian Steel Institute (ASI) acts for a safer, more productive and sustainable Australian steel manufacturing and design industry. With member groups across the full chain from steel manufacturing, distribution and downstream processing to design, drafting and detailing, the ASI's activity covers the full range from promoting excellence to providing training and support.