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Dear Treasurer

Re: Competition and Consumer (Gas Market Emergency Price) Bill 2022

The Australian Aluminium Council (the Council) represents Australia's bauxite mining, alumina refining, aluminium smelting and downstream processing industries. The aluminium industry has been operating in Australia since 1955, and over the decades has been a significant contributor to the nation's economy. Today's aluminium industry contributes around \$16.9Bⁱ a year to the economy in export value. More than \$15 B of this comes from the alumina and aluminium industries, as value adding mineral processing sectors.

The industry includes six large bauxite mines plus several smaller mines which collectively produce over 100 Mt per annum making Australia the world's largest producer of bauxite. Australia is the world's largest exporter of alumina with six alumina refineries producing around 21 Mt per annum of alumina. Australia is the seventh largest producer of aluminium, with four aluminium smelters and additional downstream processing industries including more than 20 extrusion presses.

Aluminiumⁱⁱ is one of the commodities most widely used in the global transition to a clean energy future. It is also recognised for its importance to both economic development and low emissions transition. Aluminium is Australia's top manufacturing export. The industry directly employs more than 17,000 people, including 4,000 full time equivalent contractors. It also indirectly supports around 60,000 families predominantly in regional Australia.

The Australian alumina, aluminium and downstream manufacturing industries are highly dependent on gas for their operations and viability; directly using more than 166ⁱⁱⁱ PJ of gas per annum as well as indirect consumption via the electricity market.

The Council welcomes the opportunity to provide comment and feedback on the Competition and Consumer (Gas Market Emergency Price) Bill 2022 (the Bill).

The Australian Aluminium Council welcomes action on gas prices

Industry has been calling for gas market reforms for more than a decade. The Council and its members have been seeking an efficient, effective and deep Australian domestic gas market – a market which is comprised of many buyers and sellers who are able to negotiate contracts where both sides can obtain a fair return and where, for example, shortages in supply lead to higher prices, additional supply is brought on to satisfy this demand. The inherent systemic failures in the existing east coast gas market currently do not ensure delivery of adequate supply at reasonable prices. The Council welcomes the actions of the Government to meaningfully address gas prices in the short and medium term and as a stepping stone to a long term solution.

The Council believes the Bill appropriately balances Australia's contribution to the world's energy security and the trust trading partners and international investors have shown in Australia's resources and energy sectors, with the needs of domestic consumers. Currently the pendulum has swung too far in favour of exports, to the detriment of domestic consumers. The Council's Members which have sought to recontract for gas in the last twelve months have seen prices increase up to 300% compared to prices seen only a year ago. This is not sustainable when energy typically accounts for 30-40% of the industries' cost base and therefore is a key determinant of their competitiveness. Without price relief, unsustainable will become unviable.

The Council notes that the Bill and surrounding commitments involves a number of measures, including:

- Implementing an emergency, temporary price cap on new domestic wholesale gas contracts by east coast for supply in 2023;
- Improving the existing voluntary code of conduct to make it mandatory and include a provision to ensure reasonable pricing for relevant domestic wholesale gas contracts with producers; and
- Fast-tracking the implementation of the improved Australian Domestic Gas Security Mechanism (ADGSM) so that quarterly consideration of activation is in place by 1 April 2023.

Feedback on Competition and Consumer (Gas Market Emergency Price) Bill 2022

The Council believes that the Bill implements the intent of the Price Cap, as outlined in the Options to ensure the domestic wholesale gas market delivers for Australians - Consultation paper (the Paper). The Council will separately comment on the details the Price Cap by 15 December.

However, it is worth noting that as the Price Cap only applies to currently uncontracted gas supplied in 2023, the size of the impact to gas producers is very small indeed. The intended mandatory code of conduct with a reasonable pricing mechanism together with other changes to the ADGSM will provide a greater medium term impact for industry. Such impact is necessary to ensure that gas continues to be available and affordable and can play a vital role towards longer term national decarbonisation objectives.

The Council welcomes the increased scale of civil penalties in the Bill, which ensure the penalty for a non-compliance from being potentially just a cost of doing business into a genuine deterrent.

Conclusion

At a time when Australia's manufacturers and households are facing serious challenges, energy is one of the few advantages Australia has to offer and which Government can help to deliver. A combined set of actions is needed to help ensure that there is sufficient supply of reasonably priced gas to meet the forecast needs of both industry and households, including supply to the electricity market. The Council seeks a national climate and energy policy framework which is transparent, stable and predictable, while maintaining the economic health of the nation including vital import and export competing industries. Given the importance of a functioning gas market to the industry, the Council is happy to provide further information on any of the issues raised in this submission and looks forward to continuing to work with the Government on the development of gas policy.

Kind regards,



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ⁱ <https://www.industry.gov.au/sites/default/files/minisite/static/ba3c15bd-3747-4346-a328-6b5a43672abf/resources-and-energy-quarterly-september-2022/documents/Resources-and-Energy-Quarterly-September-2022-Aluminium.pdf>

ⁱⁱ <https://www.worldbank.org/en/topic/extractiveindustries/brief/climate-smart-mining-minerals-for-climate-action>

ⁱⁱⁱ The industries' gas usage can be summarised as follows:

- Gas usage by alumina refineries (WA Gas Market) ~125 PJ, which is 32 % of WA's domestic gas market;
- Gas usage by alumina refineries and aluminium smelters (East Coast Gas Market) ~40 PJ, which is 7% of the East Coast domestic gas market; and
- Indirect consumption via the National Electricity Market (NEM) the industry has four aluminium smelters, two alumina refineries and a number of extruders; and uses more than 10% of the electricity consumed in the NEM.
- This gas consumption includes gas used in cogeneration for export electricity, as this activity is directly linked to the alumina refineries; and produces low emissions electricity for the National Electricity Market and South West Interconnected System (SWIS). Data provided is for 2021 calendar year.