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Dear Treasurer

***Re: Options to ensure the domestic wholesale gas market delivers for Australians - Consultation paper***

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 \$16.9B<sup>i</sup> 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. Aluminium<sup>ii</sup> 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 166<sup>iii</sup> PJ of gas per annum as well as indirect consumption via the electricity market.

The Council provided feedback to the Competition and Consumer (Gas Market Emergency Price) Bill 2022 in December 2022 and made a submission on the Price Cap component of the Options to Ensure the Domestic Wholesale Gas Market Delivers for Australians - Consultation paper (the Paper) in December 2022. The Council welcomes the opportunity to provide further comment on the Paper. As each operation has unique energy arrangements, the Council will limit its comments on the Paper to a high level. The Council notes the Government's intent to implement the greater breadth of reforms as outlined in the Paper from Q2 2023.

**Feedback on Options to ensure the domestic wholesale gas market delivers for Australians**

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, sellers can bring on additional supply 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 that a temporary price cap was the only policy option available which will bring prices down from their current level, at which industry is unviable, in the short term. However, it is worth noting that as the Price Cap only applies to currently uncontracted gas supplied in 2023, the size of the impact on

gas producers is very small indeed. The Council supports the review of the temporary price cap in mid-2023, to assess whether it is having the intended impact on contracting behaviour.

The mandatory code of conduct, as outlined in the Paper, with a reasonable pricing mechanism together with other policy changes is needed to deliver the meaningful reform required for sellers to offer reasonable gas prices with the length of contract to justify ongoing operation of and investment in Australian industry. The current lack of competition, high prices and risks of supply shortages support the need for the reasonable pricing provision to be introduced. The Council agrees that this provision should remain in place until the ACCC is satisfied, and can advise Government, that Australia's gas prices are reflective of the underlying costs of production and that there is sufficient supply at these prices.

While some of the Council's members operate within the wholesale gas market, much of the downstream manufacturing industry relies on retail contracts. The Council notes the existing powers of the ACCC and Australian Energy Regulator(AER) to closely monitoring the behaviour of all participants in the wholesale contract market to ensure that prices in this market reflect the price cap and implementation of a reasonable price under the future mandatory code of conduct. This should be included in the review of the temporary price cap in mid-2023.

With regard to feedback on the detailed consultation questions, the Council supports the submission of the Energy Users Association of Australia.

### **Conclusion**

At a time when manufacturers 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 industry and households within Australia, 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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<sup>i</sup> <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>

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

<sup>iii</sup> 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.