

Energy White Paper Taskforce  
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## **Submission to the Energy White Paper process**

### **About Manufacturing Australia:**

Manufacturing Australia (MA) is a CEO-led coalition of Australia's largest manufacturers.

MA champions Australia's large manufacturing base, by working with governments, business and communities to help the manufacturing sector realise its full potential.

MA is driven by the CEOs of its member companies, including; Allied Mills, BlueScope Steel, Brickworks, Capral, Cement Australia, CSR, Incitec Pivot, Orora, Rheem and Teys Australia.

### **Manufacturing Australia's Position:**

Australia should manage its energy resources for the maximum benefit of the nation.

Manufacturing Australia believes the national interest is best served by:

- a balanced economy to mitigate the peaks and troughs of cyclical industries such as resources, agriculture, tourism and services; and,
- a diverse supply of competitively-priced energy sources to underpin energy security and afford a competitive advantage to Australian industry in global trade.

Manufacturing is key to a balanced economy, and so the impact of energy policy on manufacturing must be considered. Manufacturing flourishes in those countries that identify and exploit their natural advantages. For some nations, that advantage is an abundance of labour, for others like Australia or the USA, a key advantage is energy.

As large users of energy, Australian manufacturers need reliable supplies of energy at competitive prices in order to minimise input costs low and maintain competitiveness.

### **Gas Supply and Pricing:**

LNG exports from Eastern Australia will be an important industry for Australia in the future. However, present policy settings will also see it cause structural damage to the broader economy that could outweigh its benefits.

Australia has chosen to ignore the lead of virtually every other gas-rich country, which give priority to domestic use through various mechanisms designed to de-couple export gas markets from domestic gas markets.

By so doing, most gas rich nations benefit from both a gas exports industry and domestic manufacturing that adds value to gas resources, multiplying many times over the overall benefit to the nation.

In contrast, Australia's unfettered exports approach is on a course to force the closure of manufacturing plants, drive up energy costs in businesses and homes around the country, force widespread switching from gas to coal and deliver a net jobs loss to the Australian economy. Those outcomes are not in the national interest.

Manufacturing Australia highlights two key shortcomings in the recommendations of the East Coast Domestic Gas Market Study, and we encourage the Energy White Paper process to address these shortcomings:

1. ***Policy response not timely enough.*** Policy-makers have recognised the issues. Several of the solutions proposed are positive and necessary. However, the solutions proposed are overwhelmingly medium-long term measures. They will not take effect quickly enough to mitigate the current gas price spike and therefore will not stop structural damage to the Australian economy.
2. ***Insufficient consideration of broader economic impact.*** The recommendations weigh the opportunities and threats facing the LNG exports sector in isolation, with insufficient consideration of the net impact on the Australian economy.

### **Manufacturing Australia's Recommendations:**

Manufacturing Australia supports limited intervention in markets in the short term to reflect the once-in-a-lifetime structural shift in Australia's gas markets, and the need to manage these changes and market impacts.

Medium and long term policies can be implemented to provide stable conditions under which our gas markets can develop, but short term "bridges" are required to avoid structural damage to the economy.

We believe a range of short term options exist, including:

#### **1. Domestic Production Allocation**

A percentage of production from new projects and expansions approved after 1 January 2014 should be allocated to domestic requirements. Prices and contracts for domestic allocated gas would be determined by the domestic market, as has operated previously.

#### **2. "Use it or lose it" provisions**

The transitional price spike is driven in part by limited supply options and gas being secured/warehoused by LNG export producers to manage deliverability and commercial risks associated with project start-up until their own reserves are fully operational. This places the interests of LNG export companies above the national interest. Consideration of measures to compel producers to commercialise their resources or lose the rights to export them should be part of a policy response considered.

### **3. Industry Incentive Scheme**

An immediate policy intervention through a Commonwealth funded temporary industry incentive scheme that would enable major industrial gas users to re-contract for gas during the price spike, rather than close plants or send them offshore. Such a scheme would smooth the disruptive transition to LNG exports, deliver net benefit to the Commonwealth budget and would not impact oil and gas investment activities.

#### **Electricity Reform:**

Rising electricity prices have a major impact on the cost of manufacturing in Australia, just as they do the cost of living in Australian households.

Previous electricity reforms, such as those undertaken in the 1990s, emphasised the importance of protecting our competitive advantage in energy supply, but little has been done since to build on that principle, and what reforms have taken place have often undermined that advantage rather than strengthened it.

Manufacturing Australia supports the reforms underway in Australia's electricity market to address the need for network replacement, better interconnection of our network and better management of peak demand.

However, as a guiding principle, MA believes those reforms must seek to improve the reliability and reduce the cost of electricity supply in Australia, as well as preserving Australia's competitive advantage in abundant energy rather than reducing it.

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