



4th November 2014

The Hon. Ian McFarlane MP
Minister for Industry
Parliament of Australia

The Energy Green Paper: *Ridley Corporation's letter of response*

Dear Minister MacFarlane,

Ridley Corporation applauds the Government for commissioning a White Paper to explore energy in Australia. Energy is a critical input into the competitiveness of AgriFood processors and manufacturers, such as Ridley, and Australia must ensure that the supply and pricing of energy acts as an enabler, rather than a deterrent of ongoing and new investment in industry.

Ridley is Australia's largest independent supplier of animal nutrition solutions. We support food producers in the poultry, dairy, aqua, pig, cattle, sheep, horse and pet food sectors. We are ASX listed (RIC) with over 650 employees spread across regional Australia. We have more than 20 sites with an annual turnover in excess of \$800m.

The International Energy Agency ranks Australia's gas resource among the worlds' most abundant, however the Australian economy has not leveraged this to the advantage of its domestic market. This is due, in part, to the reality that it is more commercially attractive to export LNG, particularly to Asia, than it is to supply domestic manufacturers. LNG producers can export product for about \$12 a gigajoule before processing and shipping costs, versus selling to the domestic market for \$4 a gigajoule¹.

A major competitor in global manufacturing is the US market. Like Australia, the US has abundant gas reserves, however gas prices remain some of the lowest in the world, due to their gas export policy. Prices at the Henry Hub, the price point for gas futures contracts traded on the New York Mercantile Exchange, have recently risen from record lows of \$2 a

¹ Getting gas right: Australia's Energy Challenge; The Grattan Institute, Tony Wood and Lucy Carter, June 2013.

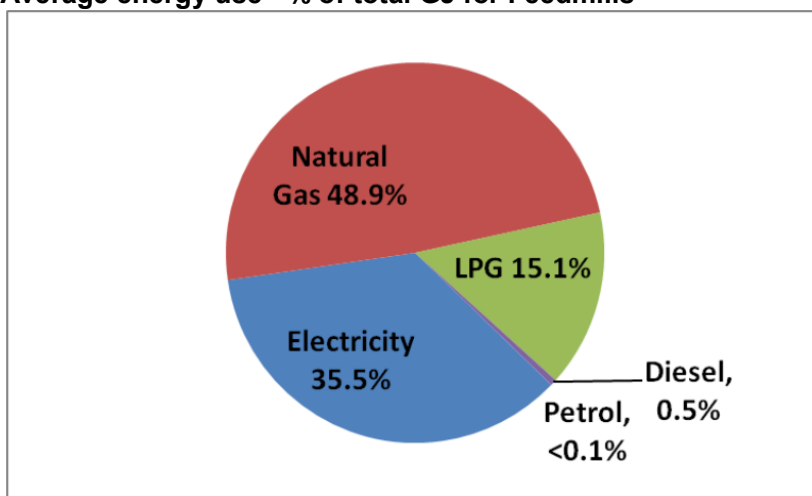


gigajoule to \$4. With the recent loosening of restrictions to overseas gas sales by the United States Congress, there are forecasts that they could rise to \$6 by 2020². However, by this time Australian prices are forecast to be well above these US prices, adding to the competitive challenges of manufacturing in Australia. Citigroup have suggested prices will continue rise to between \$10 and \$12 a gigajoule. In some areas the price of gas is already \$8 a gigajoule for medium-term volumes³.

Ridley owns and runs Australia's largest service meat rendering facility in Laverton, Victoria. Our plant consumes gas as an important energy source. However in the last financial year, the cost of gas rose by more than 20 percent and the increase alone equated to more than 10% of total EBIT for the site.

Energy pricing is also important to our feed milling business. According to the last Stock Feed Manufacturer Council of Australia (SFMCA) Energy Survey Report, sixty seven percent of surveyed mills use natural gas as their boiler fuel source. The average cost of electricity to a feedmill is \$0.1952 kw/hr, or on average \$4.76 per tonne of feed. The average cost of gas is \$3.01 per tonne of feed. Finally, the average total energy cost for pelleting mills is \$9.27 tonnes manufactured feed.

Average energy use - % of total GJ for Feedmills⁴



² Getting gas right: Australia's Energy Challenge; The Grattan Institute, Tony Wood and Lucy Carter, June 2013.

³ Australia shows US how not to export Gas, John Kehoe, The Australian Financial Review, 31st July 2014.

⁴ Stock Feed Manufacturer Council of Australia (SFMCA) Energy Survey Report 2013



Ridley would be delighted to see strategic and targeted investment in energy efficient research in the final Energy White Paper, as it is highlighted in Chapter four of the Green Paper. Ridley will continue to invest in innovative ways to reduce our energy consumption. However in a globally competitive manufacturing market rising input costs are a serious concern, particularly when they are avoidable through effective and forward-looking policy. Industry has invested in significant research, analysis and thoughtful and detailed recommendations for government to consider in deregulation and reform⁵.

We acknowledge that domestic gas reservation is politically challenging. However, in this competitive global environment where sources of competitive advantage are scarce and valuable, it would be negligent to set policies that did not benefit Australian industry and effectively ignored Australia's advantage as an important supplier of gas. There are many other ways to improve consistent and competitive supply to domestic manufacturers, and help mitigate areas of disadvantage in Australian manufacturing.

For example, encouraging increased investment in gas pipeline infrastructure would help to reduce the cost, and hence improve the profitability for gas companies to serve the domestic market; Furthermore, improving access to pipeline capacity will help use existing infrastructure more effectively. Improving supply availability and market transparency will assist in improving Australia's energy competitiveness. For this reason, the Energy Green Paper's focus on attracting energy resources investment is encouraging, particularly the need to identify and reduce infrastructure bottlenecks, and reforming the energy regulatory framework to boost productivity and Australia's international competitiveness.

Reforms which provide improved access to gas supplies are also welcomed, including the safe development of non-conventional sources of gas which also consider community concerns, environmental interests and enable a sustainable gas industry. The availability and quality of market information is also vital to complement gas market reform to improve flexibility and transparency.

⁵ Large scale export of East coast natural gas: unintended consequences; http://www.dow.com/advanced-manufacturing/pdf/australia/Value_Add_Study_Executive_Summary.pdf; The Dow Chemical Company Advanced Manufacturing Plan for Australia; http://www.dow.com/advanced-manufacturing/pdf/australia/Dow_Advanced_Manufacturing_Plan_Australia.pdf; Getting gas right: Australia's Energy Challenge; The Grattan Institute, Tony Wood and Lucy Carter, June 2013.



Holistic and interconnected government policy can produce more powerful outcomes and sustainable economic growth. We encourage the Department of Industry to consider the importance of effective energy policy in the context of the Agricultural Competitiveness White Paper, which is also being developed concurrently by the Department of Agriculture.

Competitive AgriFood supply chains are highly interdependent, where successful agricultural industries are often dependant on thriving manufacturing and processing industries. This is especially true of animal feed where both our customers and suppliers are often farmers. This interdependence between agriculture, processing and manufacturing is also evident in many other agribusiness sectors such as dairy processing and manufacturing, meat processing, grain handlers and marketers...etc. Australia has a natural competitive advantage in its AgriFood industry and to achieve this enormous potential, energy policy must consider the impact of insufficient supply and rising costs to the AgriFood manufacturing industry.

We look forward to the release of the Energy White Paper. Upon request, I would be delighted to be contacted to elaborate on any of the above points.

Kind regards,

Tim Hart
Managing Director and Chief Executive Officer
Ridley Corporation