

7th February 2022
Gas Market Consultation
Labour Market, Environment, Industry and Infrastructure Division
The Treasury
Langton Crescent
Parkes ACT 2600

Manufacturing Australia Submission
Options to ensure the domestic wholesale gas market delivers for Australians

Thank-you for the opportunity to comment on the above consultation paper.

Manufacturing Australia (MA) is led by the CEOs of some of Australia's largest manufacturing companies: AdBri, Alumina, BlueScope, Brickworks, Capral, Cement Australia, CSR, DuluxGroup, Incitec Pivot, Orora, Rheem, Sims and Tomago Aluminium. MA's members provide direct and indirect employment to more than 100,000 Australians and operate some 500 plants or smaller facilities around Australia, notably in outer suburban and regional Australia.

Gas is a fundamental input to Australian manufacturing:

1. Gas is an essential and non-substitutable feedstock in plastics and chemical manufacturing.
2. Gas is widely used to produce heat and steam to power manufacturing processes.
3. Gas fired generation is essential to a proper functioning National Electricity Market, in particular as the market transitions to lower emissions technologies. Gas plays a crucial role, alongside other technologies, in "firming" renewable electricity as the share of coal-fired generation in the NEM decreases.

Security of domestic gas supply, at competitive prices, is therefore vital to continued investment in many Australian manufacturing industries, as well as an orderly and well managed transition to lower emissions technology.

Some members of Manufacturing Australia, or some industry-specific manufacturing associations, are making detailed submissions to this review that draw on technical analysis. This short submission seeks not to replicate that analysis, but rather to reinforce the key principles and position of Australia's high value adding, sovereign manufacturing industries.

General comments in response to the consultation paper:

- Manufacturing Australia supports strongly the introduction of a mandatory gas industry code of conduct, incorporating a reasonable price provision.
- A mandatory code of conduct is necessary to provide manufacturers with greater confidence in the fair and transparent operation of the East Coast gas market.
- Such confidence is essential to underpin continued investment in Australia's sovereign manufacturing capabilities in a wide range of value adding industries.
- The code should seek to address the deficiencies identified by the ACCC in successive reviews of the East Coast gas market. These include:
 - Gas prices in Eastern Australia are unreasonably and unsustainably high for Australian manufacturers, having increased disproportionately to changes in exploration and development costs for gas producers.

- Gas producers are withdrawing more gas from the domestic market than they are contributing, failing to meet their “net contributor” test.
- Competitive tension between producers is not leading to the responses expected in a functioning market, with producers more responsive to threatened intervention than competition.
- There is a persistent imbalance of information and bargaining power in favour of gas producers and to the detriment of gas customers.
- The existing voluntary code of conduct has not sufficiently addressed the above issues identified by the ACCC. It is therefore MA’s view that a mandatory code of conduct is a necessary and responsible action.
- Further, the extraordinary disruption to global energy markets arising from Russia’s invasion of Ukraine makes this code of conduct and reasonable price framework an essential part of the Federal Government’s efforts to shield Australia from the extremes of energy scarcity and price spikes occurring globally.

Reasonable Price Framework:

- Manufacturing Australia supports the ACCC’s advice to government that a Reasonable Pricing Framework should be introduced as part of a mandatory code of conduct, given the current low levels of competition between producers, high prices and ongoing risks of supply shortages.
- A reasonable price framework should act as a reference to assist negotiations and arbitration.
- It should have the effect of decoupling domestic gas prices from export gas prices, ensuring Australian customers pay a price for gas that reflects costs of supply, and not a price that is based on scarcity of gas in other jurisdictions globally.
- A reasonable price framework should seek to encourage negotiation and agreement around a reference price without the need to proceed to arbitration. However, should negotiations fail, the reasonable price framework should be relied upon by the arbiter in making determinations.

Coverage and investment risk:

- Manufacturing Australia contends that all domestic gas sales to commercial and industrial customers – including both wholesale and retail customers - should be covered to make the code of conduct and reasonable price provisions effective. Further, this should include imported gas.
- On the subject of investment risk, Manufacturing Australia’s view is that the risk to investments by gas producers is negligible. This is because the operation of the code of conduct and reasonable price provisions will be carefully considered and informed by ACCC analysis, and act as a guide to inform negotiation and arbitration.
- Finally, we urge swift development and implementation of the code and reasonable pricing framework, such that negotiations for future contracts can continue with greater sense of understanding and confidence in the rules, for all stakeholders.

Thank-you for the opportunity to comment on the consultation paper.

Yours Faithfully,

Ben Eade

Chief Executive Officer

Manufacturing Australia