MEDIA RELEASE

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New Report – Australia lags behind on domestic gas

A new report has found Australia lags behind other OECD countries in maximising value from natural gas resources.

The 200 page *Australia Domestic Gas Policy Report* by Queensland-based Innovative Energy Consulting found international experience shows gas exports and a vibrant domestic market should not be mutually exclusive.

However this required strategic vision. Gas rich countries like the United States, Canada, Russia, Norway and the Netherlands relied on policies to protect the national interest and maximise value from gas resources.

Simply relying on market forces – as Australia does – is not international practice.

DomGas Alliance Executive Director, Gavin Goh, said the Report explodes many of the myths in the domestic gas debate.

“LNG represents less than 10% of world gas production and only 30% of international gas trade.”

“Australia has abundant gas resources so there is no reason why prices in energy-poor Japan should dictate prices in Australia.”

“Neither the US nor Canada consider it smart policy to link domestic energy prices to the world’s highest prices in Japan.”

The Report found affordable gas is a major competitive advantage for countries – as an energy source for industry, the cleanest fossil fuel and as a feedstock for value-adding industries.

The Report however warned that the convergence of domestic gas prices to export parity or LNG netback first in WA, and now in the East Coast, will have serious consequences for Australia:

- Higher gas prices will impact industries like fertiliser, chemicals, glass, paper and steel, as well as the farms and businesses that use those products.

- Companies in Australia will be forced to close and relocate facilities to other countries where gas costs are lower.

- A switch from carbon-intensive coal to clean natural gas will not occur, even with a carbon tax.

“The Report points out that while it might take a decade to build an LNG project, it takes many decades to build a manufacturing sector,” Mr Goh said.

“The experience in WA and overseas is clear. Government must protect the national interest and prioritise Australian industry and households.”

The full Report is available on the DomGas Alliance’s website, www.domgas.com.au.

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2012 AUSTRALIA DOMESTIC GAS POLICY REPORT:
SUMMARY OF KEY FINDINGS

Domestic gas as a competitive advantage

- Affordable gas is a major competitive advantage for countries – as an energy source for industry, the cleanest fossil fuel, and a feedstock for industries like fertilisers, plastics and explosives.

- International experience demonstrates that gas exports and a vibrant domestic market are not mutually exclusive.

- Gas rich countries rely on policies to ensure gas resources are managed consistent with the national interest and the domestic market.

- While nationalisation of gas resources is one extreme response, simply relying on market forces to protect the public interest is the other extreme.

- In Australia, governments have significantly intervened through gas supply agreements and financial support to enable the development of the gas industry, including the North West Shelf LNG export project.

LNG and domestic gas prices

- Large price differentials exist between gas markets of North America, Europe and Japan. These reflect the degree of import dependence, relative isolation and transportation costs.

- LNG represents less than 10% of world gas production and only 30% of international gas trade. There is no rationale for LNG prices to dictate the price of pipeline domestic gas in a gas rich country like Australia.

- In gas rich countries, governments have full control over resources and can act to ensure supply. Commonly, domestic gas prices are significantly lower than export prices.

- In contrast, energy poor, net importer countries like Japan have no control over gas resources.

Australia's lags behind other OECD countries

- Australia lags behind other OECD countries with abundant gas resources in creating value from gas. The share of gas in Australia's energy mix is low, per capita consumption is low and delivered gas prices relatively high.

- Natural gas accounts for just 18% of Australia's primary energy – the same as a decade ago. This compares to 26% in the US, 40% in the UK, 37% in Canada and 50% in Russia and the Netherlands.

- Canada consumes nearly three times as much gas as Australia on a per capita basis, driven by a vibrant mining and manufacturing sector.

- The gap between Australia and other countries is expected to worsen as LNG exports increase at the expense of the domestic market and domestic gas prices rise.

- Increased gas production and exports normally translates into lower domestic gas prices like in the United States. The opposite has however occurred in Australia.

- Japan's gas prices should have no bearing on Australia's domestic gas prices to Australian consumers. Australia's gas resources are owned by the crown which has full control over how those resources are managed.

- Domestic gas prices in gas rich countries should be determined by the availability of supply and the marginal costs of production.

- North America and increasingly Europe is characterised by intense gas-on-gas competition. In contrast, gas pricing and other sale terms in Australia reflect engineered gas shortages, market bearable pricing and other market control tools. This is a symptom of market failure.

Impact on manufacturing and climate change

- The convergence of domestic gas prices to export parity or LNG export netbacks first in WA and now in Qld is not in the national interest.

- Demand destruction from high gas prices will have serious consequences for Australia. While it may take a decade to build LNG export facilities, it takes multiple decades to build a vibrant domestic gas market and manufacturing sector.

- Higher gas prices will impact industries such as fertiliser, chemicals, glass, paper and steel, as well as the farms and businesses that use those products.

- Under a higher domestic gas price environment, companies in Australia will be forced to shut down facilities and relocate to other countries where gas costs are lower. Significant demand destruction in the feedstock gas sector occurred in the US in 2000-mid 2009 due to high gas prices.

- For Australia to switch from carbon-intensive coal to cleaner natural gas, delivered gas prices must be competitive with coal. This will not occur with LNG netback or export parity pricing, even with a carbon tax.

- In OECD countries, gas-fired plants are the predominant choice for new generation with about 90% of net additional electricity output coming from gas in the period 2000 to 2010.

Experience in other OECD countries

- Russia, the Netherlands and Canada are major gas exporting countries with national policies to ensure affordable domestic gas supply and a vibrant domestic gas market.

- Alaska, Texas and Alberta are large gas supply regions that have gas policies and regulations to ensure low regional gas prices while also embracing reliable gas exports.

- In the United States, proposed LNG export projects must demonstrate that exports will not impact domestic supply or prices. In granting conditional export licence approval of the Sabine Pass LNG, the US Department of Energy stated:

  > "We intend to monitor those conditions in the future to ensure that the exports of LNG authorized herein and in any future authorizations of natural gas exports do not subsequently lead to a reduction in the supply of natural gas needed to meet essential domestic needs."

- Canada only grants long term export permits where in the national interest, and where gas is surplus to reasonably foreseeable domestic needs.

- While Norway does not have gas export and domestic gas policies, 80% of oil and gas production is controlled by the former State Oil Company, Statoil (67% government owned). Norway deposits 100% of oil and gas revenues into its sovereign wealth fund – now worth around $540 billion.

Country	Gas policies
United States	Natural Gas Act and Energy Policy and Conservation Act requires approvals and “national interest” tests for LNG exports In granting conditional approval for Sabine Pass LNG exports, the Department of Energy stated: “We intend to monitor those conditions in the future to ensure that the exports of LNG authorised herein and in any future authorisations of natural gas exports do not subsequently lead to a reduction in the supply of natural gas needed to meet essential domestic needs. The cumulative impact of these export authorisations could pose a threat to the public interest. DOE is authorized, after opportunity for a hearing and for good cause shown, to take action as is necessary or appropriate should circumstances warrant it. Furthermore, DOE/FE will evaluate the cumulative impact of the instant authorisation and any future authorisations for export authority when considering any subsequent application for such authority."
Canada	Canada only grants long term export permits where in the national interest, and where gas is surplus to reasonably foreseeable domestic needs
Russia	Gas sector identified as a key strategic sector. Policies to provide low domestic gas prices to ensure security of supply and pricing
Netherlands	Domestic reserves and production are now in decline. Net exports of gas have declined as the domestic gas market is first priority. Government has introduced policies to reduce depletion rate of gas resources.
Norway	No gas export and domestic gas policies, but 80% of oil and gas production controlled by former State Oil Company, Statoil (67% government owned). Norway deposits 100% of oil and gas revenues into its sovereign wealth fund – now worth around $540 billion

The DomGas Alliance

The DomGas Alliance represents natural gas users, infrastructure investors and prospective domestic gas producers. The Alliance promotes security and affordability of gas supply.

Alliance members represent around 80 percent of Western Australia's domestic gas consumption and transmission capacity, and supply gas and electricity to the State's 800,000 households and 200,000 small businesses.