MEDIA RELEASE

CANBERRA T +61 2 6247 0960
Level 10, 60 Marcus Clarke St
Canberra ACT 2600

BRISBANE T +61 7 3231 0500
Level 36, 32 Turbot St
Brisbane QLD 4000

PERTH T +61 8 9426 7200
Level 4, 190 St Georges Tce
Perth WA 6000

SYDNEY T +61 2 8241 1900
Suite 4, Level 8, 3 Spring St
Sydney NSW 2000

Media Release: Embargoed until Monday, 27th May 2013

Protectionism no solution for manufacturing

Last week's announcement by Ford demonstrates the folly of providing industry-specific assistance and using subsidies to resist structural economic shifts.

Australia's manufacturing sector – including the LNG industry – faces many challenges, such as a persistently-high Australian dollar, skilled labour shortages, and increased global competition.

However, bail-outs and protectionism offer no solution to rising gas prices. Asking expanding industries to underwrite those that are struggling only serves to reduce the benefits that flow to the community via increased employment, taxation payments, and economic opportunity.

Rather than implementing gas reservation, governments seeking to assist manufacturers and gas customers should deliver policies that stimulate the exploration and development to deliver new gas supplies and put downward pressure on prices.

The Manufacturing Australia reports draws on discredited National Institute of Economic and Industry Research (NIEIR) analysis to suggest that exporting natural gas as LNG rather than using it in domestic manufacturing would reduce Australian economic welfare. This assertion is based on implausible assumptions, including that labour and capital used by domestic gas-using industries and their suppliers have no alternative uses.

When an analytical framework is used that makes plausible assumptions about how the economy works, such as that completed in December 2012 by NERA Consulting in the US for the Department of Energy, the analysis finds that, under all scenarios, the US would experience net economic benefits from increased LNG exports.

NERA concludes:

> *… U.S. economic welfare consistently increases as the volume of natural gas exports increased. This includes scenarios in which there are unlimited exports. The reason for this is that even though domestic natural gas prices are pulled up by LNG exports, the value of those exports also rises so that there is a net gain for the U.S. economy measured by a broad metric of economic welfare or by more common measures such as real household income or real GDP. Although there are costs to consumers of higher energy prices and lower consumption and producers incur higher costs to supply the additional natural gas for export, these costs are more than offset by increases in export revenues along with a wealth transfer from overseas received in the form of payments for liquefaction services. The net result is an increase in U.S. households' real income and welfare.* (NERA Consulting, *Macroeconomic Impacts of LNG Exports from the United States*, report for the US Department of Energy (December 2012), p. 6).

A similar analysis in Australia would draw exactly the same conclusion.

MEDIA RELEASE

CANBERRA T +61 2 6247 0960
Level 10, 60 Marcus Clarke St
Canberra ACT 2600

BRISBANE T +61 7 3231 0500
Level 36, 32 Turbot St
Brisbane QLD 4000

PERTH T +61 8 9426 7200
Level 4, 190 St Georges Tce
Perth WA 6000

SYDNEY T +61 2 8241 1900
Suite 4, Level 8, 3 Spring St
Sydney NSW 2000

Indeed, even the NIEIR report includes analysis of cases in which the demand for gas to service LNG exports is accommodated by domestic users substituting other fuels for gas, rather than just by crowding out domestic gas-using activities. In these cases, the development of LNG exports poses no threat to the domestic economy.

This is why the Australian Government, the Opposition, all east coast governments and the North Territory Government have ruled out market interventions such as reservation policy.

Calls for market manipulation and "competitively priced gas" from Manufacturing Australia, or complete red herrings like "use it or lose" it retention lease policies, are akin to the gas industry asking the manufacturing industry for "competitively priced steel or aluminium", in order to reduce the cost associated with building multi-billion dollar gas plants.

Media Contact: Michael Bradley – 0423 550 347 MBradley@appea.com.au