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Media Release

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More gas, not more regulation, the only way to lower prices

The Federal Labor Party's proposal for permanent controls on Australia's gas exports will not lower long-term domestic gas prices. More regulation and political uncertainty risks deterring investment in new gas supply which, over time, will mean higher prices.

"Like manufacturers, gas producers compete in a tough global market and understand the pressures to stay competitive. However, trying to regulate prices does not tackle the real problems – the rising cost of producing gas and tightening local supply in Victoria and New South Wales," said APPEA Chief Executive Dr Malcolm Roberts.

"As manufacturers themselves accept, the only effective way to put downward pressure on gas prices is creating more supply from more suppliers. That supply needs to be *local* supply to avoid customers paying significant shipping costs.

"APPEA can see no justification for the government to apply export controls in 2019 and certainly no justification for making controls – with a price trigger – permanent.

"In June this year, the Australian Energy Market Operator (AEMO) forecast that it does not expect supply gaps until 2030. The Australian Competition and Consumer Commission (ACCC) made a similar finding in its July 2018 *Gas Market Inquiry 2017-2020* report."

"The export controls introduced last year were not needed to ensure supply in 2018 and will not be needed in 2019 or into the future.

"APPEA members are committed to supplying local customers at competitive prices. The east coast LNG projects are offering all their uncontracted gas to domestic buyers first.

"The ACCC reports that the three LNG projects in Queensland have contracted to sell 305 petajoules (PJ) of natural gas to domestic customers in 2018 – about half of east coast demand – and are likely to do the same in 2019. Companies operating from offshore Victoria, South Australia and other Queensland gas projects supply the rest of demand.

"ACCC monitoring of the market shows that prices have fallen sharply over the last twelve months.

"APPEA encourages all governments to focus on lasting solutions. It is bizarre that Labor in New South Wales and Victoria supports bans on local gas projects while Federal Labor now proposes to penalize the gas industry in states that do support development.

"Restricting exports and killing jobs in Queensland does not lower gas prices in Sydney and Melbourne.

"Unless new gas resources in New South Wales and Victoria are developed, families and businesses in those states will pay more than those in states continuing to develop new supply.

"As the ACCC has pointed out; shipping gas from Queensland to southern customers adds $2-$4 in transport costs.

"The ACCC has also found placing downward pressure on prices in the southern states requires more supply to be developed in those southern states."

A number of the measures proposed by the Labor Party will require further discussion:

- A decision to make the export controls permanent should be informed by the findings of the scheduled review in 2020. Making export controls permanent will compound the already significant level of sovereign risk created by the Australian Domestic Gas Security Mechanism, affecting more than $250 billion invested in Australia by both domestic and foreign investors. It sends an alarming signal to investors considering future investment in Australia.
- References to a 'benchmark price' from the ACCC's December 2017 report are out-of-date and misleading. The ACCC found, in its most recent (July 2018) report *"… domestic price offers have reduced substantially and converged with export parity (LNG netback) prices at Wallumbilla".*
- More broadly, the ACCC has consistently cautioned that gas prices are influenced by many factors and these factors change over time. These factors include the cost of transportation, the cost of gas production, the "non-price" terms customers request in their gas supply agreement and the role of domestic short-term gas trading markets.
- It is unclear what "new powers" the ACCC requires. The ACCC is already actively monitoring the gas market and providing regular reports through its *Gas Market Inquiry 2017-2020* and has significant powers through the *Competition and Consumer Act 2010* to act against any anti-competitive behavior it observes in any market across the Australian economy.
- Proposals to strengthen 'use it or lose' provisions appear unnecessary and potentially counterproductive. A recent review for the COAG Energy Council found *"… no evidence that gas is being withheld (or warehoused) from development and production …"* and *"… to apply a use-it-or-lose-it policy to deliver downstream objectives risks longer term investment distortions and higher prices."*

"APPEA believes it is vital that any future policy changes support continuing investment in new supply. Without that new supply, the market will tighten and prices will rise," Dr Roberts said.

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