

Manufacturing Australia Submission
ACCC Review of the LNG Netback Series

Thank-you for the opportunity to comment on the ACCC's review of the LNG Netback series.

Manufacturing Australia (MA) is led by the CEOs of some of Australia's largest manufacturing companies: AdBri, BlueScope, Brickworks, Capral, Cement Australia, CSR, DuluxGroup, Incitec Pivot, Orora, Rheem 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.

Several MA members are providing submissions in their own right, including detailed commentary in response to the review questions, in the context of their own businesses.

This submission does not seek to replicate the technical commentary provided in those submissions. Instead, it adds MA's endorsement and support to those submissions, and restates the key principles underpinning them.

In addition, MA supports the submissions made by peer associations, Energy Users Association of Australia and Chemistry Australia, with whom MA collaborates with regards to gas market reform, and which have each made detailed submissions to this review.

Finally, this short submission intends to retain MA's status as an interested party in the ACCC's review and improvement of the LNG Netback series. To that end, MA would be happy to expand upon the principles outlined below via in person testimony, should the ACCC deem it valuable.

Manufacturing Australia's gas position:

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 used to produce heat and steam, generate electricity and 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 coal-fired generation in the NEM decreases.

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

Manufacturing Australia (MA) supports regulations and careful intervention to ensure security of gas supply, at globally competitive prices, in the Australian domestic market, for the benefit of households and industry.

Such regulations should aim to ensure that domestic gas supply is secure and contract prices in the domestic market are globally competitive. Gas prices for domestic customers should not be inflated by market concentration, supply scarcity, regulatory failure or the expectation that domestic customers pay for the recovery of LNG export costs (fixed or variable) which are irrelevant to their needs.



ACCC LNG Netback Series:

The ACCC's Gas Inquiry 2017-2025, and the complementary work to establish a LNG spot price benchmark series, has been an invaluable source of information and market guidance to customers. MA recommends strongly that the inquiry and series should be extended beyond its nominal end date in 2025, and its methodologies refined such as via the review process underway, to reflect changes in domestic and global gas markets.

The various recommendations the ACCC has made in successive reports will take several years beyond 2025 to implement. So too will the complementary gas market policies and reforms announced by Federal, State and Territory Government, in particular improvements to the Australian Gas Hub at Wallumbilla.

Until such time as those market reforms and broader policies have been implemented, and the market dysfunction identified in the ACCC Gas Inquiry 2017-2025 have been remedied, continued market guidance provided by the ACCC is necessary and important.

Chiefly, MA recommends that the LNG Netback Series be strengthened to provide market guidance that is more relevant to domestic customers, by providing a longer term reference price series, aligned to more liquid global gas markers than the narrowly traded JKM, and without including LNG cost recovery.

Doing so would provide a more effective netback price reference, around which customers and suppliers should be better able to negotiate in good faith, and which would provide greater confidence for customers to plan long term capital investment decisions.

Opportunities for improvement:

Manufacturing Australia recommends the following changes be made to the ACCC LNG Netback Series in order to address the market dysfunctions and information asymmetry identified in successive ACCC reports:

1. The ACCC should create and publish an Australian Domestic Netback Price (ADNP), being a transparent, longer-term, netback reference price series.
2. The ADNP should be based upon deep, liquid, continuously traded global gas markers.
3. The ADNP should not include any recovery of LNG liquefaction costs (variable or fixed). These costs are not incurred in supplying the domestic market and therefore represent windfall gains to all producers, regardless of whether they export or not.
4. The ADNP should publish reference prices over longer terms – for example: 1,3,5,7 and 10 years - where supported by liquid market benchmarks. The lack of a transparent price reference over longer terms is a key deficiency in the Australian gas market and the current LNG benchmark series.
5. The ADNP should be referenced in related gas policy and market measures, including the Heads of Agreement, Code of Conduct and standardised templates for gas supply agreements.
6. The ACCC should report regularly on the gas industry's performance in delivering globally competitive, long term, contracted gas prices in line with the ADNP series.

Thankyou for the opportunity to comment on this matter.

Yours Faithfully,

Ben Eade

Chief Executive Officer

Manufacturing Australia