MANUFACTURING AUSTRALIA

Australian Government Gas Market Review

Submission August 2025

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Introduction: The case for reform

Since 2015 domestic gas consumption in eastern Australia has fallen by 25 per cent. At the same time, production of gas has doubled, and the price of wholesale gas has tripled.[1]

Defying the law of supply and demand, this situation demonstrates the east coast gas market is broken.

Australian wholesale customers see no competition for their custom, while gas producers are incentivised to sell their gas for export at the expense of local businesses and households.

Today, east coast-based manufacturers pay between $12 and $19 AUD per GJ for gas, while in the USA, gas is often around $5-$7 AUD per GJ equivalent.

The broken east coast gas market is fundamentally counter to Australia's national interests: economically, environmentally and geo-strategically. The damage is multi-faceted:

1. Security of Australia's supply chains for essential goods, including food and beverages, fertilisers, building materials, medical supplies and fuel, is increasingly at risk.
2. Australia's manufacturing capabilities – our most R&D-intensive sector of the economy, accounting for 25% of private sector R&D spend and one in four private sector research jobs – are being hollowed out.
3. Australia's energy transition is materially more expensive, more volatile and higher risk than it should be, due to a shortage of competitively priced gas to "firm up" renewable electricity generation, and unreasonably high gas prices increasingly setting the price of electricity in a renewables-based grid.
4. Australia's tremendous opportunities in low emissions manufacturing may never be realised because the decarbonisation pathways for industries such as green steel and iron-making, green ammonia, aluminium and cement rely upon competitively priced gas, either as a transition to future hydrogen-based processes, or to displace coal-based processes in favour of lower emissions gas processes.
5. Australia's burgeoning critical minerals industries are lagging the global race to diversify markets amid geopolitical tension, because high gas and electricity costs harm the business case for investment.
6. With each closure of a key manufacturing capability or plant, Australia reduces its industrial complexity, and with it our capacity to pivot these capabilities and re-deploy them in times of crisis.

More than any other sector of the Australian economy, manufacturers are bearing the brunt of this policy and market failure. Gas is essential to Australian manufacturing, and there is now widespread acknowledgement that high gas prices have been the dominant cause of a string of manufacturing closures, while putting both brownfield and greenfield manufacturing investment at risk.

In Q1 2025, manufacturing's percentage of GDP fell to 5.1%, down from 8.9% two decades ago and 15% in the mid-1970s. Today, Australia has the lowest share of manufacturing of any OECD country.

Allowing an advanced national economy to become so bereft of the economic, strategic and innovation benefits provided by manufacturing puts future generations of Australians at economic and strategic risk.

Today, Australia has an opportunity to reset this broken market, to decouple the domestic gas market from Asian exports, and return to Australian customers a comparative advantage from our natural resources.

Following forty years of aggressive market deregulation, today there is a widespread political appetite for sensible intervention in a market that is perceived to be too dependent on foreign supply chains.

Australia must target a delivered gas price below $10 AUD per GJ to restore to Australian businesses and households the comparative advantage from the nation's natural resources.

This submission sets out Manufacturing Australia's perspectives and recommendations on how to do that.

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[1] Australian Gas and LNG Tracker | IEEFA

Summary of policy recommendations

MA's policy recommendations are underpinned by the following key principles:

1. **Security of supply**: domestic customers should be supplied preferentially to the export market.
2. **Globally competitive prices**: no domestic customer should pay more for gas, on a contracted basis, than an export customer. Domestic customers should not subsidise investment in export infrastructure.
3. **Transition**: as energy and industry supply chains transition to the new technologies in order to meet Australia's emissions reduction targets, there is a role for government to provide policy support and careful interventions to maintain Australia's competitive advantage of globally competitive energy costs through the transition.

Regulatory reforms must target delivered gas prices below $10 GJ to return to Australian investors the comparative advantage from the nation's endowment of gas.

In summary, MA believes this policy objective can be met through these specific policy reforms with legislative backing to ensure the rules are transparent for all industry participants:

1. **Strengthen the ADGSM by enforcing a net contributor test for LNG projects** - This test should be applied annually (assessed by the AEMO) to ensure LNG producers maintain their historic commitment to governments of being a net contributor to the domestic gas market.
2. **Establish a national gas reservation policy & Commonwealth export permit scheme** - The permit system would require domestic reservation of an appropriate percentage of all gas production. The volume should be determined in close consultation with customers, and bring about a nationally consistent gas reservation policy.
3. **Establish a pricing mechanism that disconnects domestic prices and export parity pricing (EPP)** – A domestic pricing mechanism should ensure domestic customers are supplied at reasonable prices and they do not subsidise investments in export infrastructure. It should prevent producers from meeting domestic obligations using higher-cost gas while reserving low-cost production for export.
4. **Government support for pipeline and storage infrastructure -** This could take the form of guaranteed offtake with government(s) underpinning the latter years of agreements; certificate schemes such as are used elsewhere in the energy market; or, targeted grants or other incentives for priority infrastructure.
5. **Accelerate new gas development project approvals via a streamlined development process** - Through a fast-track approval pathways for projects meeting domestic supply criteria.

In addition, MA also recommends:

1. Regulatory guardrails be developed to ensure LNG import capability will not lead to a shift from export parity pricing (EPP) to import parity pricing (IPP) for domestic gas sales.
2. ACCC use its powers to ensure netback pricing benchmarks do not include the cost of capital for liquefication capacity in the netback calculation.
3. The use of gas by LNG producers is not considered a contribution to the domestic market in net contributor considerations by AEMO and the ACCC.
4. The Federal Government introduce a scheme in the short-term to make locally produced gas more affordable for investors looking to decarbonise industrial applications.
5. The Federal Government introduces a program in partnership with customers and gas producers to educate communities on the need for gas as a tool for decarbonisation and an essential source of energy and feedstock for locally produced goods.
6. MA supports the fast tracking of potential storage projects including Golden Beach (Gippsland), Ionna expansion and Moomba expansion to ensure supply redundancy in the gas network.

Executive summary

Manufacturing Australia (MA) and its member companies understand that Australia's energy future will be built on electrification that is underpinned by renewable generation firmed with batteries, hydro and gas.

MA members are among Australia's largest domestic gas consumers, but they also have a significant exposure to Australia's electricity markets.

Australia's manufacturing sector remains reliant on natural gas. While some industrial applications will be electrified in coming years, there are other applications where electricity cannot and will not be able to provide a technical or economic substitute. These applications include the use of gas as a feedstock for the manufacture of fertilisers, explosives, and other chemicals. Also, very high heat applications, where simple physics dictate that electricity cannot be substituted.

A competitive east coast gas market, with a secure and economic supply of gas, is essential if Australia is to maintain sovereign capability to manufacture goods that are an essential input to the Australian economy. MA members have invested on Australia's east coast to manufacture:

- Building products that are used in Australian homes, schools and workplaces.
- Fertilisers that are an essential input to food and fibre production.
- Explosives that are used to explore for and produce Australian minerals.
- The packaging that enables food and beverage to travel from farm to supermarket and ultimately into Australian kitchens and the consumer's hand.

Australian manufacturing enables Australian workers to be involved in local supply chains. And it reduces the cost of import, and CO2 emissions from transport, by ensuring many of the goods we all rely on every day can be made locally and contribute to the local economy.

Australian manufacturing faces well publicised headwinds. Australia is a high wage cost investment destination. The cost of infrastructure development is high. And industrial settings are inflexible. But this is nothing new.

In the past, Australia has offset these investment hurdles by virtue of a well-educated and highly skilled workforce, and a significant comparative advantage in the cost of gas and electricity.

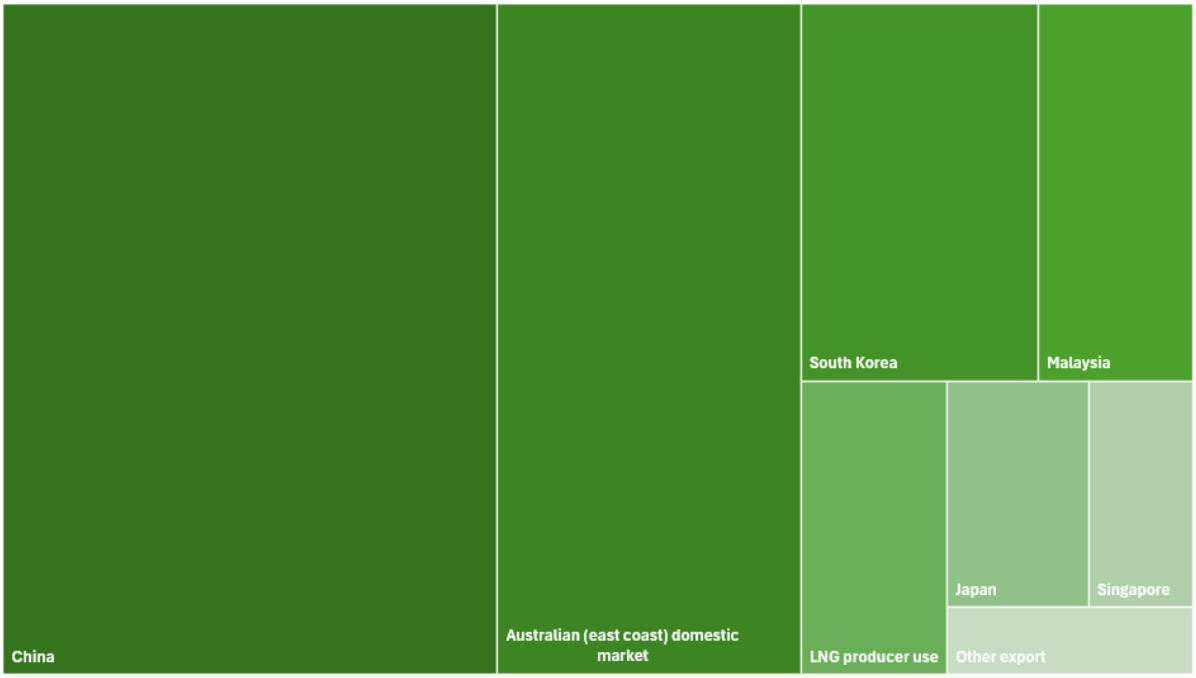
In the decade since liquified natural gas (LNG) exports commenced in eastern Australia, wholesale gas customers across the eastern states have seen dramatic increases in gas prices, coupled with a reduction in competitive behaviours from gas suppliers.

Today, Australia is one of the largest gas exporters in the global economy. Yet gas customers in eastern Australia are subject to some of the highest wholesale gas prices in the world.

75 per cent of all the gas produced in eastern Australia is exported[2]. More than 40 per cent of total gas production is sold to customers in China, while only a quarter is used by domestic customers.

[2] Australian Gas and LNG Tracker | IEEFA

Image 1 - Australian east coast gas flows[3]



Because so much of this gas is exported, the dynamics of the east coast market, and the behaviours of many gas producers, are dominated by international considerations. The lure of export contracts set the price of gas sold in the local market, and the preference of many suppliers is to simply avoid smaller deals with local customers to prioritise larger and more lucrative deals with exporters.

The lack of market competition among gas suppliers results in a domestic gas floor price consistently above LNG netback price. When the international benchmark falls gas producers do not pass through this price for gas offers to domestic gas consumers.

Today, gas dependent manufacturers in eastern Australia find it hard to secure gas contracts needed to provide certainty across their investment timeframes. And where they can secure gas contracts, the price is linked to benchmarks that not only erode what was once a comparative advantage, but often places Australian manufacturers at a disadvantage to international competitors.

Like many industries, Australian manufacturers face global competition for the capital they need to invest in plants that underpin local jobs and sovereign manufacturing capability. In recent years there have been well publicised examples of Australian businesses investing in markets where gas prices are lower, and liquidity in gas markets enables the investor to de-risk its own capital investment.

There are several examples of Australian businesses investing in the United States, where protections against over exporting local gas underpins the liquidity and low cost of gas that is purchased 'on-market' based on the Henry Hub indicator.

On the east coast of the US, manufacturers are not forced into long-term bilateral gas supply agreements that lock in unfavourable terms, as a method of ensuring a reliable and economic supply of gas. American-

[3] Australian Gas and LNG Tracker | IEEFA

based facilities can choose to buy gas on short term agreements with a price derived from the transparent and published Henry Hub indicator. This enables the businesses to hedge their supply if they choose, by entering medium or long-term deals for a percentage of their load.

In eastern Australia this is simply not possible. A majority of MA members enter long term deals, often beyond a decade in length, simply to ensure they can access gas. In eastern Australia the spot price of gas is mostly irrelevant, as a vast majority of the C&I load is procured through bilateral gas supply agreements. These agreements are stringent, contain opaque terms, and are ultimately not competitive by international standards.

Today we have an opportunity to reset this broken market. To create a market that is both competitive and returns to Australian investors and Australian workers the comparative advantage of its own resource.

MA acknowledges the significant investments made by LNG producers. These businesses also make a significant contribution to the Australian economy and Australia's trade balance.

However, as a nation we must acknowledge that gas developed across Australia belongs to Australian families, Australian workers, and investors in Australian businesses. It is their gas. Any market construct that requires local customers to compete for the leftover gas not needed by larger and more powerful customers in Asian markets, simply put, does not meet the expectations of the Australian people.

Reform of the gas market must make the fundamental shift from a '*foreign interest and export focused market*', to an '*Australia first perspective*'.

This can only be achieved by decoupling the domestic market from Asian exports. By controlling exports to ensure there is more gas available for Australian customers than the amount of gas Australian customers use at one point in time. This will foster competition, it will drive down prices, and ultimately, return to Australian households, businesses and workers a comparative advantage from the country's natural resources.

> ***"Reform of the gas market must make the fundamental shift from a 'foreign interest and export focused market', to an 'Australia first perspective'."***
>
> MA policy position

The need for supply certainty in manufacturing

All manufacturers need certainty in gas supply. In eastern Australia that is only possible through long term contracts that lock in both supply and price needed to underpin capital investment in local manufacturing facilities.

But it is important to note the specifics in this dynamic differs for every investor.

Some MA members have expressed the need for at least four years of certainty, to attract investment through major maintenance cycles. For other members, the timeframe extends to ten years of certainty to attract capital needed for major investments.

Regardless of timeframes, a majority of MA members are forced to use longer term contracts to manage the risk of uncertain supply from a market with low liquidity. These investors are forced to lock in long and unfavourable terms as a way of managing the risk of not having access to enough gas on economic terms.

According to the Australian Energy Regulator (AER) between 10% and 30% of east coast gas is traded on spot markets. Meaning up to 90% of gas traded is under confidential bilateral contracts separate to these markets.[4]

This experience is vastly different in other nations. Several MA members with operations abroad describe a more competitive market with greater liquidity, where long term contracts are not required to provide investors with certainty (see more below).

Unlike other destinations for manufacturing capital, in eastern Australia MA members and other investors have taken the view that it is impossible to rely on supply from the spot market. The east coast gas market is viewed as too volatile, lacking the liquidity necessary for supply certainty, and with structural high prices that can only be de-risked through the certainty of a multi-year contract. Furthermore, Australia's gas market lacks transparency, flexibility and agility.

[4] State of the energy market 2024

Manufacturers' experience in gas market

Producer behaviour

In the decade since LNG exports commenced from Curtis Island in Queensland, MA members have found it increasingly difficult to secure long-term gas contracts at anywhere near a globally competitive price.

In addition, MA members have experienced an eroding level of dialogue and competition for their business from gas producers. Prior to the formalised EOI process (which will be explored at length in an upcoming section) MA members consistently experienced:

- Fewer offers from producers when approaching the market to secure new gas contracts, often with most major producers offering no response.
- Offers often appear to be made out of obligation, and at prices and terms not intended to win the business, rather than in response to genuine competition and a desire to win the business.
- Offers that only met part of their requirements in terms of both volume and length of contract.
- Prices that were neither internationally competitive nor reflective of LNG netback. MA members often received offers that were in fact based on unrealistically high assumptions of forward LNG pricing.

This situation is vastly different to the experience of C&I customers in Western Australia (WA). MA members with WA operations report:

- Ongoing and active discussions with producers about their gas supply requirements.
- Competition for customers so producers meet their domestic gas supply obligations.

On the east coast MA members are uniform in their view that the east coast market is devoid of any real competition for their business.

Members' experience is that initial offer prices from producers, when they are received, are always high. Contract offers lock in unfavourable terms that leave the customer exposed to entrenched uncompetitive supply, and no upside opportunity from commodity swings across the contract period. Validity periods are also usually unrealistically short.

Impact of regulatory changes

Changes to regulatory settings in the east coast market, while often welcomed as well intended, add an increasing level of uncertainty to the investment environment for MA members.

Because MA members are forced into long-term contracts to manage uncertainty of supply, regulatory changes often shift the goal posts through the term of existing contracts. The unintended consequence of regulatory changes is often to place one investor at a disadvantage to competitors, based simply on the arbitrary tenure of existing supply contracts.

MA consulted its membership on the specific question in the consultation paper "*Has the Expression of Interest (EOI) and offer process in the Code and HoA respectively been effective?*"

Uniformly, MA members who responded to this question described an erosion in competitive behaviours from suppliers as a result of regulatory changes. Members described two concerning developments.

The first is the formalised EOI process has removed the dialogue between supplier and customer. Traditionally gas supply agreements were often negotiated outcomes from discussions between traders. This dynamic allowed customers to negotiate outcomes that took into account factors including seasonal flex, length of contract, and ultimately a price that took specific customer requirements into account.

The formalised EOI process is seen by members as a 'blind auction', that has further removed transparency and dialogue from a process that was already considered opaque.

> ***The EOI process has not been helpful. There is no dialogue. Blind bids are a leap of faith.***
>
> MA member

The second area of concern is that members have expressed the view that the $12 price cap on domestic supply has now become the de facto floor price.

MA members have described two concerning developments since the price cap was introduced:

- The first is that responses to EOIs have all been above the $12 GJ price range.
- Secondly, the spot market has consistently trended on or above the $12 GJ range.

One MA member that recently participated in an EOI for a new gas supply contract relayed that "*Responses to the EOI process were all in the $12 to $19 GJ range, and both transport and CPI were added to these prices.*" This is a sentiment repeated by other MA members who consistently say they are not receiving any offers below the $12 GJ price cap. The same members also expressed frustration as contract terms now closely match spot.

$12 GJ plus delivery as a base cost for gas further erodes the competitive environment for Australian manufacturers, who already face high wages and inflexible industrial arrangements when compared with other investment destinations. Regulatory reforms must target delivered gas supply below $10 GJ to return to Australian investors the comparative advantage from the nation's endowment of gas. This will also drive improved gas production efficiencies.

Managing risk

Complexity in the east coast gas market, coupled with investors' need to manage risk in terms of gas prices and contract length, place an onerous burden on Australia's manufacturing sector.

Several MA members have described the need to invest in employee capability just to manage the risk associated with gas supply. In addition to adding considerable cost to investors that are facing a challenging economic environment, this effort also distracts management and boards from the core business of running an efficient manufacturing business.

Many members describe the need to deploy teams of employees and consultants to create a market for their supply, as a response to the lack of competitive behaviours from gas suppliers. One MA member said "*We have had to become energy consultants internally. We would rather focus on manufacturing, but we haven't had a choice. We have had to create a market, as there is no market*".

To further illustrate this complexity, in addition to negotiating gas supply agreements, manufacturers also have to manage transport contracts for this gas supply. Because transport contract terms are nearly always far shorter than gas supply agreements, managing these contracts concurrently adds significant risk that needs to be actively managed.

Managing this considerable risk profile is further complicated by Australia's complex governance environment, where state regulations and a shifting federal regulatory landscape add a level of complexity, particularly for businesses that operate in more than one state. This further distracts investors from their core capabilities and erodes Australia's position as an investment destination. One MA members said "The amount of interaction needed with government to make sure the market is not running away from us is unbelievable".

One MA member described the surprise of its international parent company, an investor that operates in several of the markets competing for capital with Australia. This international investor was surprised by the amount of expertise needed to manage energy. When comparing Australia to other possible investment destinations they were particularly surprised by:

- The need to use long-term contracts to ensure a reliable supply.
- The volatility in energy prices, both gas and electricity.
- The local effort required to manage risk in the energy supply chain.

> ***"The energy landscape in Australia is just too complex. We are forced to manage risk by hedging higher and contracting longer."***
>
> MA member

MA would also like to highlight the additional and unintended risk profile that is introduced by regulatory intervention. Recent interventions, including the granting of additional powers to the Australian Energy Market Operator (AEMO), have added both complexity and risk to local manufacturers.

One MA member said "*AEMO powers are being relied upon like a magic solution, but the extra costs are passed on to consumers*". While MA understands the intention behind recent regulatory changes involving AEMO, it is also concerned that an organisation that was established to operate energy markets and plan for the future system requirements, does not possess the commercial acumen to fully understand the management of supply risks to manufacturing investors. These interventions add extra costs to deal with short-term issues that are not budgeted by investors. The cost incurred by AEMO from these interventions is being socialised across all gas users, irrespective of whether that service was needed.

New sources of supply

For several years market analysis by AEMO, through its Gas Statement of Opportunities (GSOO), has identified the urgent need to secure new sources of gas supply to offset production declines from southern basins. There is a consensus view among producers and commercial consumers that dire warnings of gas supply shortfalls have not been acted upon in a timely manner.

Introduction of new production capacity to the east coast market is essential for long term viability of the gas market. There is a huge potential supply of gas, with several basins offering good connectivity to existing infrastructure. However, any new gas production would be unlikely to be marketed for several years and will need to be fast tracked.

In the short term, supply shortfalls may be met with the building of LNG import infrastructure. While MA acknowledges that import capacity may have a role to play, its introduction must be accompanied by regulatory guardrails, or risk a devastating impact for domestic manufacturing.

MA is concerned that the introduction of import capability will lead to a shift from EPP to IPP for the domestic gas market. Just as the $12 price cap has been treated as a new floor price by gas producers, the high price of imported LNG could lead to a new floor price closer to $20. This would lead to higher prices for both industrial and retail gas customers, making industrial closures and job losses all but inevitable.

> “
>
> ***LNG imports cannot be the answer to supply shortages. They will bake in a higher floor price.***
>
> ”
>
> MA member

By far the lowest cost gas that will be available to Australian customers is the gas that is produced closest to where it is consumed, either as a source of energy or as feedstock. For this reason, MA believes an increase in local gas production is essential to a competitive gas market.

Development of new gas resources is capital intensive and carries inherent risk to the investor. Australia’s current regulatory hurdles to investment are significant. Australia has some of the world’s most stringent environmental standards, many of which are duplicated between state and federal authorities. Further, unlike some gas reserves competing for development capital, Australian projects also face challenges from local government authorities and have social licence challenges from local communities.

MA is supportive of measures taken to ensure:

- Project approval processes are streamlined to remove duplicate approval processes across multiple jurisdictions.
- The Federal Government orchestrates a single approval authority that acts on behalf of all three levels of government.
- Government efforts are improved to educate communities on the need for gas as a tool for decarbonisation and an essential source of energy and feedstock for locally produced goods.

There are four sources of new production MA believes could make a significant contribution to meet the gas requirements of the manufacturing sector:

1. **Narrabri coal seam gas (CSG), New South Wales** - Excellent market proximity and infrastructure access. While facing higher levels of community opposition, the opportunity set is significant.
2. **Gippsland onshore, Victoria** - While unproven, and likely smaller than offshore, proximity to existing pipelines is a comparative advantage. This conventional source is likely to contain condensate, making it more attractive to investors. A well-managed access regime could reduce community opposition.

3. **Bowen Basin (CSG), Queensland** - Enormous reserves to bring to market, albeit technically difficult to develop. While this will result in a higher marginal cost than the neighbouring Surat Basin, developments face lower levels of community objection.
4. **Beetaloo Basin (CSG), Northern Territory** - Enormous reserves, but a long way from traditional areas of load. Will require significant pipeline investment including capacity upgrades.

It should be noted these potential developments may take five to seven years to bring gas to market. If these developments alone were relied upon to mitigate the rising costs faced by Australian manufacturers, damage to local capacity may be devastating.

Any potential action plan to improve the long-term dynamics of the east coast gas market should also include improved pipeline connectivity and increased underground storage in southern markets.

Improving the capacity of north to south haulage will be essential to mitigate Gippsland production decline. This increased capacity will allow more molecules to flow south in peak periods of the southern winter. Improving the southern flow of gas could also facilitate an increase in use of gas for electricity firming in major markets. While increased capacity for northern flow of gas in summer months could assist economics of southern basin development.

Regulatory reforms of pipeline regimes should foster the greater competition needed to reduce tariffs for C&I customers. This would also offer great benefit to the electricity market in peak periods, with gas fired power generation increasingly setting the marginal cost of wholesale electricity.

With the increasingly seasonal demand profile of Gas Power Generation (GPG), underground gas storage will be an increasingly market participant in domestic gas supply. Expanding underground gas storage assists in managing the demand profile in the market. This is particularly important as Bass Strait, the traditional flex supplier to the east coast market, comes off plateau and inflexible CSG production increases market share.

Storage has the added benefit of potentially mitigating short term price peaks during supply interruptions. Increased storage has the ability to assist the short-term gas market during LNG train production outages.

MA supports the fast tracking of potential storage projects including Golden Beach (Gippsland), Ionna expansion and Moomba expansion.

New market settings

Australia has an opportunity to reset the regulatory regime that governs the east coast gas market, returning to Australians the comparative advantage of its own natural endowment.

This is not a case of penalising LNG exporters or seeking a '*hand out*' for Australian gas customers. Rather it is an acknowledgement that gas developed across Australia belongs to Australian families, Australian workers, and investors in Australian businesses. And like foreign investors and foreign gas customers, they too should share in the opportunity of their own natural resource.

MA advocates for a shift from a '*foreign interest and export focused market*', to an '*Australia first perspective*'. It is acknowledged, that after decades of deregulation across the economy, this will need an adjustment of philosophy.

The following policy recommendations are built on the recognition from MA members that no amount of supply increase will lead to lower gas prices. Regardless of new supply points there is significant ullage, or latent liquification capacity, on Curtis Island. Unregulated, new sources of gas development will be absorbed by existing LNG exporters to capitalise on foreign market opportunities.

> ***New supply alone will not lead to lower gas prices, it will lead to more exports. There needs to be a surplus of gas in the local market, creating competition for customers. That is the only way prices will fall.***

MA member

Conversely, unprotected new sources of gas supply may be seen by operators of existing export projects as less complex supply points than expanding their own production, entrenching existing market dynamics. This would once again place smaller a less sophisticated Australian customers at a disadvantage to LNG exporters, who based on scale are able to offer larger contract volumes under more lucrative terms.

MA recommends decoupling domestic gas supply from export markets through a comprehensive framework that includes:

1. Enforcing a net contribution test to all export projects.
2. A national gas reservation policy enacted through an export permit scheme.
3. Strategic infrastructure investment facilitated through a government-supported network development scheme.
4. Streamlined development approvals as previously mentioned.
5. Enhanced regulatory mechanisms.

It is worth noting that Western Australia's gas reservation policy has driven superior outcomes to local gas customers, both industrial and residential, to the unregulated approach on the east coast. Large commercial gas users with investments across the nation, describe the WA market as competitive, lower cost and less complex than the east coast.

The WA Government's policy requires LNG projects to commit to making domestic gas available by:

1. Reserving domestic gas equivalent to 15% of LNG production from each LNG export project.
2. Developing and obtaining access to the necessary infrastructure (including a domestic gas plant, associated facilities and offshore pipelines) to meet their domestic gas commitments.
3. Showing diligence and good faith in marketing gas to existing and prospective consumers. [5]

This experience has informed MA's policy recommendations.

Strengthen the ADGSM by enforcing a net contributor test for LNG projects

Ensuring strict adherence to the Exporter Market Security Obligation[6]

- This test will hold LNG project proponents to the commitments made while gaining government approvals, that they would be net contributors to the domestic gas market.
- This test should be applied annually (assessed by the AEMO) to ensure LNG producers maintain their commitment to be being a net contributor to the domestic gas market.
- LNG exporters should be prohibited from buying gas from the domestic market to meet their domestic or international commitments, with the exception of additional gas from another LNG exporter.
- Where an LNG exporter is shown to be in net deficit, the Exporter Market Security Obligation should be used to ensure additional gas is supplied to local customers.
- It is acknowledged that seasonal flex needs to be considered in this mechanism's application. MA understands access to export markets in periods of low domestic demand will be a powerful incentive

[5] WA Domestic Gas Policy
[6] stepped_process_and_timeframes_for_the_adgsm.pdf

new field development. But it is essential that any purchase of gas from the domestic market by an LNG producer be offset by an additional or greater contribution to domestic customers.
- Failure to comply must be met with restrictions to export licences.

Establish a national gas reservation policy in Federal legislation

Commonwealth export permit scheme:

- Establish a federal export permit system requiring an appropriate volume of domestic reservation of all gas production, aligning with Western Australia's successful model. The necessary volume should be determined in consultation with customers.
- Leverage Commonwealth constitutional trade powers to ensure national consistency.
- Apply reservation requirements to both direct production and third-party gas purchases.

Implementation framework:

- Grandfather existing export contracts to minimise market disruption and foreign interest implications.
- Apply requirements to all new contracts from policy announcement date.
- Require LNG producers to reserve a portion of upstream gas production for domestic customers.
- Mandate actual sales to domestic customers, not merely offers.
- Manage access to the necessary infrastructure to ensure domestic gas is available to local customers.
- Demonstrate good faith in marketing gas to local consumers on commercial terms that reflect cost of production.

Strategic infrastructure investment

Government-supported network development:

- Provide targeted grants for pipeline and storage infrastructure serving identified gas resources.
- Focus investment on projects delivering material volume and price improvements to east coast market.
- Establish coordinated decision-making process involving:
    - Australian Energy Market Operator (AEMO).
    - Australian Competition and Consumer Commission (ACCC).
    - Department of Industry, Science and Resources.
    - Major industrial gas customer representatives.

Accelerate new gas development project approvals

Streamlined development process:

- Establish fast-track approval pathways for projects meeting domestic supply criteria.
- Create single Commonwealth-state coordination mechanism.
- Set mandatory decision timeframes with deemed approval provisions.

The above policy recommendations are designed to be cognisant of concerns expressed by domestic gas customers that too much gas is exported - including opportunistically accessing the LNG spot market - in turn shorting the local market and driving up prices. This view is shared uniformly by MA members.

> *"The market is only short because of spot LNG cargoes destined for export."*
>
> MA member

MA would also like to make the following policy recommendations on the existing market framework:

- **Netback pricing**. MA members were adamant the cost of capital for liquification capacity should not be included in the netback calculation.
- LNG producer gas use. MA submits the use of gas by LNG producers, most often to power liquefaction plant, should not be considered a contribution to the domestic market. In 2024 Queensland LNG producers consumed 104 PJs of gas.

The role of gas in decarbonisation

Natural gas has a well understood role in the decarbonisation of Australia's electricity grids, providing flexible firming capability to low-cost variable renewable generation.

MA believes a healthy functioning and competitive east coast gas system is required to underpin the decarbonisation of an affordable electricity market. This is important as gas fired generation often supplies the marginal electron to the National Electricity Market (NEM). Therefore, the input cost of gas for generation will have a profound impact on the price paid for electricity by manufacturers.

Several MA members expressed concerns with existing gas prices setting the electricity price. This was viewed as being unsustainable for investors.

AEMO's Integrated System Plan (ISP) calls for more than 15GW of flexible gas turbine capacity to be installed in coming decades.[7] Today, the volumes needed for electricity firming are high and lumpy, and have a profound impact on the gas market. The ISP states "*Gas for electricity generation is therefore expected to be needed most during winter, when gas demand for heating is also high*".[8] This dynamic will place additional strain on the east coast gas system, that is already struggling to meet winter demand because of declining southern production and pipeline constraint.

However, the impact of gas prices on decarbonisation efforts is more than just the cost of gas for firming. There are existing industrial applications where gas is being used to displace coal in industrial processes, leading to far lower CO2 emissions.

One such project being conducted by an MA member would see natural gas replace coal in an industrial process resulting in a 60 per cent reduction in CO2 emissions from the site. However, for this process to be feasible, the investor would require more than 30 PJs per annum of gas at a globally competitive price. The current market is unable to meet this precondition for investment.

One MA member described how 'green iron' would require a shift from coal to natural gas Direct Reduced Iron (DRI) as a crucial step in the decarbonisation of steel making. In this application the natural gas is used to treat iron ore at temperatures below its melting point. This allows for the production of high-purity steel with lower carbon emissions.

This promising technology creates an opportunity set for Australian manufacturers, predicated on the availability of gas at a price that allows for local investment.

In time the process will allow an opportunity to bleed in hydrogen to offset methane molecules. A development that could see local manufacturing providing foundation customers for an industrial-scale local hydrogen industry.

Similar processes are possible in other manufacturing sectors where coal can be displaced with natural gas. Like green steel and GPG, the role of gas to both immediately reduce Australia's carbon emissions and also provide investment impetus for a hydrogen industry is strong. But it is predicated on a competitive east coast gas market with sustainable prices.

Because of the significant decarbonisation potential of affordable gas, MA would like to see the Federal Government introduce a scheme in the short-term to make locally produced gas more affordable for investors looking to decarbonise industrial applications.

[7] 2024-integrated-system-plan-isp.pdf P 69
[8] 2024-integrated-system-plan-isp.pdf P 70

> ***We would like to see the government introduce a gas for decarbonisation scheme. This would need to provide a benefit to offset the safeguard mechanism.***
>
> MA member

MA would also like to reiterate the point that some industrial applications have no technologically viable path to displace the use of natural gas. For example, natural gas cannot be replaced for furnaces, the technology does not exist. Further, the substitution of natural gas a feedstock, even where ammonia can be used, will first rely on the development of an industrial-scale hydrogen industry, which at best estimates may still be decades away.

For these reasons, a healthy and competitive east coast gas market is needed to maintain Australia's existing industrial capabilities, provide opportunities for the transition to world-scale low carbon industries, and ultimately create the opportunity set of an industrial load to underpin hydrogen investment.

International experience

Australia's east coast is often described as the only major export market without protections for local consumers. Despite commitments from foundational LNG investors in Queensland, this lack of protection has led a set of market dynamics that compare unfavourably to other major gas regions.

Earlier in this submission the US example was cited. In the US restrictions on exports lead to a market with high liquidity, low prices, and an ease of procurement which means manufacturers do not feel compelled to lock in restrictive long-term contracts.

> ***"On international comparisons, the US has both an LNG export sector and a competitive local market. Why can't we replicate that in eastern Australia."***
>
> MA member

However, this is not a market dynamic that is limited to major gas producing regions such as the southern states of the US. In the period following the breakout of war in the Ukraine, much was made of Europe's energy security, particularly its ability to supply gas to customers once Russian pipeline gas flows were dramatically reduced. Today, Europe has substituted much of the Russian pipeline gas supply with LNG imports, while also relying on declining legacy gas productions in regions including the North Sea.

Despite being reliant on gas imports, including LNG regassification, the European gas market does not suffer at the same levels of dysfunction as Australia's east coast.

One MA member with operations is central Europe described how they procure a large gas load on a quarterly basis, while in Australia they are forced to enter long and inflexible multi-year contracts. They describe liquidity in the east coast spot market as too low to risk shorter term procurement. And despite Europe's distinct disadvantage in gas production, liquidity in European spot markets is higher. Finally, they describe the price paid for gas in Europe to be at least equal to those paid in eastern Australia.

> ***"The cost of gas in Europe is equal, and often less than, the cost of gas on the east coast."***
>
> MA member

It is worth reiterating this observation. MA members' experience in Europe, which is a net importer of gas, is that gas prices are at least equal and often lower than prices available on the east coast of Australia, which is one of the largest gas exporting regions in the global economy. This is the very definition of a market in dysfunction.

For MA members with an investment exposure in other countries the message is quite clear, both gas and electricity prices on the east coast have made Australia uncompetitive for trade exposed industries.

They describe how high energy prices are always pushed through to the consumer. And where that makes locally manufactured goods too expensive, competing products are being imported from Asia.

MA members need more gas at a good price to remain competitive both in terms of attracting capital investment, and their products remaining competitive in market.

Geopolitics & sovereign manufacturing capacity

The heightened perception of geopolitical risk, following supply disruptions during the Covid-19 pandemic, has brought the security of Australia's supply chains into sharp public focus for the first time since World War Two.

Public and political commentary has a strong focus on the essential need for:

1. Security of Australia's supply chains for essential goods including food, fertilisers, building materials, medical supplies and fuel.
2. Maintaining a local manufacturing base for the production of goods seen as essential for daily life.
3. Maintaining manufacturing capacity that can be easily re-deployed in times of crisis.

Following forty years of aggressive market deregulation, today there is a political appetite for sensible intervention in a market that is perceived to be too dependent on foreign supply chains.

There has been widespread acknowledgement among the commentariat that energy prices are a hindrance to investment in manufacturing. This is a perception that was confirmed with MA's discussion with member companies, that uniformly describe their experience in eastern Australian as:

- Contractual terms for gas supply were restrictive and uncompetitive.
- The local gas market lacks the liquidity needed for long term supply security.
- Energy prices are too volatile.
- And ultimately, the price of both gas and electricity are internationally uncompetitive.

In this document MA has advocated for long-term and structural market reforms, that we believe will ultimately deliver more sustainable market settings. But the need for short-term and medium-term changes to market settings are in all probability more important.

The erosion in Australian manufacturing capacity in recent years has been significant. While the loss of motor vehicle manufacturing may have dominated the headlines, it is the erosion of capacity in fuel and chemical refining, fertiliser production, plastic manufacturing, and fibre production that is perhaps most concerning.

The manufacturing sector that remains in Australia is sophisticated, high tech, and able to compete in the global economy - on the precondition of competitive input costs.

Should this capacity be further eroded, the impact on local supply chains could be significant, adding to the disadvantage of remaining manufacturers. Critical mass for important manufacturing inputs is essential for the competitiveness of the sector. These inputs include the training programs for workers, sharing of research and development costs, local production of low value inputs, and the de-risking of programs through joint venture arrangements.

Without this critical mass Australia could well lose its industrial-scale manufacturing capability, and once lost, it will likely never return.

MANUFACTURING AUSTRALIA

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