ORORA

9 July 2015

Mr Keir Delaney
Secretary
Environment & Planning Committee
Parliament House, Spring Street
Melbourne VIC 3002
epc@parliament.vic.gov.au

Dear Mr Delaney

RE: Inquiry into Unconventional Gas in Victoria

Orora Limited is a leader in innovative packaging solutions, employing 5,500 people across 122 sites in seven countries. Orora supplies a broad range of fibre, metal and glass packaging solutions, as well as packaging-related services including distribution and recycling. Orora is headquartered in Melbourne and is listed on the Australian Securities Exchange.

Orora has 28 manufacturing plants across Australia and New Zealand with 6 plants located in Victoria, employing over 1100 Victorians.

In Australia, Orora specialises in the manufacture of paper and glass packaging products; both processes which consume large amounts of gas.

Orora has recently experienced material increases in the cost of gas across all its facilities in eastern Australia. Domestic gas prices have become linked to an international LNG netback price due to the construction of the three LNG facilities in Queensland. This has placed significant upward pressure on Orora's operational costs along with those of other large industrial customers.

As Orora's manufacturing businesses are trade exposed, this cost increase cannot readily be passed through to Orora's customers.

The issue of high gas prices is compounded by the lack of competition between producers and also suppliers and the lack of price transparency in the gas market.

To ameliorate rising gas prices Orora has entered into a gas supply agreement with Strike Energy to supply gas from its prospective CSG field in the Southern Cooper Basin to Orora's major manufacturing facilities from 2018. This has required Orora to make a substantial investment by way of pre-payment/option fees to Strike Energy and take on what Orora sees as significant development risk.

This is not something that Orora has undertaken lightly, but Orora has been forced to take an upstream position due to the lack of competitiveness in the east coast gas market which is largely due to:

- a perceived (or real) lack of gas to meet Eastern Australian domestic C and I gas markets' requirement;
- all gas producers re-valuing their gas portfolios to LNG netback pricing. (Prices have risen by over $4.00/GJ since 2013);
- concentration of ownership of gas fields;
- hoarding of gas by gas producers/ LNG exporters to meet their future LNG contract requirements; and
- moratoriums on on-shore gas exploration and development in Victoria and NSW.

Orora looked at several other prospective gas suppliers in Victoria - namely Lakes Oil and Ignite Energy - however due to drilling and fracking bans or moratoriums put in place by the Victorian Government, Orora was discouraged from taking a stake in either of them.

Consecutive Victorian State Governments have been pressured into invoking a moratorium on on-shore drilling for gas due to a vocal minority of Victorians.

They are concerned about two key issues:

- the possibility of contamination of ground water by on-shore drilling and fracking of coal seams to stimulate gas flows; and

- the rights of land owners being overridden by gas producers, with little or no compensation.

These are reasonable concerns.

Unfortunately, although there have been several Victorian State Government inquiries into unconventional gas, they have failed to adequately address these issues and so there has been no progress towards a resolution of the moratorium.

The availability of unconventional gas in the United States has led to competition in the gas market lowering gas prices and this in turn has led to major investments in manufacturing, whereas in Australia, and in particular Victoria, the opposite is true.

Manufacturing is exiting Victoria and there will likely be no major new investment in manufacturing in Victoria until such time as gas prices become more competitive.

The US EPA has recently released a report titled "Assessment of the Potential Impacts of Hydraulic Fracturing for Oil and Gas on Drinking Water Resources".

This report found that despite extensive hydraulic fracturing carried out in the US since the early 2000's, there were very few instances of contamination of drinking water and ground water.

Furthermore, water contamination issues can be eliminated by implementation of correct procedures for hydraulic fracturing of coal seams.

Victoria is one of the highest CO_2 emitters/capita in the world, and this is due to the almost exclusive use of brown coal as a fuel for power generation. Carbon capture and storage is now not seen as the silver bullet that can reduce CO_2 emissions from power stations and so we must look towards other fuel supplies.

Gas-fired generators have much lower CO_2 emissions, yet in eastern Australia in general and Victoria in particular, gas-fired generators have been withdrawn from service due to the high cost of natural gas.

Compare this to the US, where the availability of low cost natural gas has led to much lower CO2 emissions by the displacement of coal and oil fired generators with gas-fired generators.

Proudly headquartered in Melbourne, Orora encourages the Victorian Government to use this inquiry to properly examine putting in place appropriate industry standards to protect drinking water and ground water, and legislating for adequate compensation for landowners, in order to lift the moratorium on on-shore drilling for unconventional gas thereby increasing Victoria's economic opportunities and decreasing its CO_2 emissions.

Yours sincerely,

[redacted]

Peter Dobney,

GM Resources and Energy, Orora Ltd

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