



AFGC SUBMISSION

INQUIRY INTO UNCONVENTIONAL GAS IN
VICTORIA

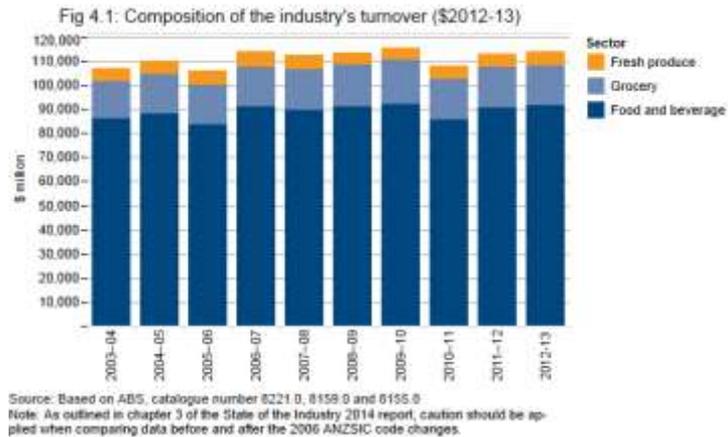
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Sustaining Australia

PREFACE

The Australian Food and Grocery Council (AFGC) is the leading national organisation representing Australia's food, drink and grocery manufacturing industry.

The membership of AFGC comprises more than 178 companies, subsidiaries and associates which constitutes in the order of 80 per cent of the gross dollar value of the processed food, beverage and grocery products sectors.



With an annual turnover in the 2013-14 financial year of \$114 billion, Australia's food and grocery manufacturing industry makes a substantial contribution to the Australian economy and is vital to the nation's future prosperity.

Manufacturing of food, beverages and groceries in the fast moving consumer goods sector is Australia's largest manufacturing industry. Representing 27.5 per cent of total manufacturing turnover, the sector accounts for over one quarter of the total manufacturing industry in Australia.

The diverse and sustainable industry is made up of over 27,469 businesses and accounts for over \$55.9 billion of the nation's international trade in 2013-14. These businesses range from some of the largest globally significant multinational companies to small and medium enterprises. Industry spends \$541.8 million in 2011-12 on research and development.

The food and grocery manufacturing sector employs more than 299,731 Australians, representing about 3 per cent of all employed people in Australia, paying around \$12.1 billion a year in salaries and wages.

Many food manufacturing plants are located outside the metropolitan regions. The industry makes a large contribution to rural and regional Australia economies, with almost half of the total persons employed being in rural and regional Australia. It is essential for the economic and social development of Australia, and particularly rural and regional Australia, that the magnitude, significance and contribution of this industry is recognised and factored into the Government's economic, industrial and trade policies.

Australians and our political leaders overwhelmingly want a local, value-adding food and grocery manufacturing sector.

SUMMARY

The AFGC welcomes the opportunity to provide a submission to the Victorian Standing Committee on Environment and Planning's inquiry into unconventional gas in Victoria. This submission is made on behalf of food, beverage and grocery manufacturers, including members of the AFGC's Agribusiness Forum who are involved in the early stage processing of agricultural commodities.

A reliable and competitively priced gas supply is important to the food, beverage and grocery manufacturing industry. The industry is significantly concerned about both recent and forecast increases in the price of gas and uncertainty of future gas supplies.

The AFGC considers that a competitive and efficient Victorian gas market is important to the future proofing of investment and jobs in the Victorian food, beverage and grocery manufacturing industry. This is best achieved through a reform process that examines areas such as joint marketing arrangements and retention leases, which have been well recognised in various reviews as potentially limiting competition

New sources of gas also play an important role. The AFGC is mindful of the potential impacts of unconventional gas developments, given the importance of land and water resources to the food, beverage and grocery manufacturing industry. The current moratorium should be accompanied by an assessment of the best available, independent scientific analysis to determine when, under what conditions, and in which areas, it should be lifted. This assessment must include the potential impacts of the different forms of unconventional gas and have regard to high value land use, such as dairy regions. Any future development of unconventional gas must be accompanied by robust protection for communities, water and land resources through appropriate Government regulation and oversight. Approaches such as harmonisation with the NSW Gas Plan should be given consideration as a framework for managing the impacts of unconventional gas. An open ended blanket ban on new unconventional gas development is not in the best interests of Victoria.

The food, beverage and grocery manufacturing industry

The food, beverage and grocery manufacturing sector is a significant contributor to the Victorian economy and employment. The industry employs approximately 95,000 people in Victoria, with approximately 35 per cent of employees located in non-metropolitan areas. Exports of food, beverages and groceries from Victoria are in the order of \$8.5 billion.¹

The food, beverage and grocery manufacturing industry uses natural gas in several applications including as a direct fuel source in ovens and in co-generation plants that create on site electricity and heat that can be used in boilers or refrigeration. Natural gas plays an important role as a cleaner source of energy than electricity and coal and is therefore important for the food, beverage and grocery industry achieving its target of reducing the industry's energy emissions by 20 per cent by 2020, relative to a 2010-2011 baseline.

¹ AFGC, *State of the Industry 2014*

Impact of higher gas prices

The food beverage and grocery manufacturing industry is concerned that the gas market structure and policy settings are hampering the ability of the East Coast gas market to respond efficiently to the changes brought about by the export of significant LNG volumes from Queensland. Modelling undertaken by the Australian Government² shows that the price impact from LNG exports is not isolated to the Queensland market, but will in fact have a significant impact on Victorian gas prices. In addition to a price impact, a supply shortage is affecting members' ability to secure gas contracts beyond the short term, which poses considerable uncertainty to a sector that requires reliable access to energy and that in many instances cannot easily switch fuel source.

In 2014 the AFGC, along with five other industry associations, released the Deloitte Access Economics report, *Gas Market Transformations- Economic Consequences for the Manufacturing Sector*. The report contains economic modelling and case studies that highlight the serious effects for Australian manufacturing due to the current policy settings and changes in the East Coast gas market that are leading to rising gas prices and tightening of supply.

Importantly the report's research found that the most plausible gas price projections would lead to a \$118 billion cumulative loss output from manufacturing to 2021, including a \$9.7 billion loss from food, beverage and grocery manufacturing. The manufacturing sector would lose 14,600 jobs as a result, including a loss of 3,000 jobs from food, beverage and grocery manufacturing.

The report also found that the likely impact in Victoria is over \$23 billion of cumulative lost output from manufacturing to 2021.

The forecast increase in gas prices will have a significant impact on the operating costs and competitiveness of the Australian food, beverage and grocery manufacturing industry. Anecdotal evidence from AFGC members revealed that businesses are already struggling to find competitive offers, with several AFGC members reporting price increases and difficulties securing contracts beyond one to two years.

Food, beverage and grocery manufacturers have been investing heavily in energy efficiency measures as part of core business to improve the efficiency and cost competitiveness of their operations. Despite these improvements, energy costs continue to rise and the ability to meet emissions reduction goals risks being undermined by a gas shortage and substantial increase in gas prices. Recent or planned investments in new efficient gas fired technologies risk being stranded or not undertaken which reduces the ability to improve overall business efficiency and competitiveness.

Higher gas prices risk a contraction in Victorian manufacturing industry activity. Some high gas users within the food and grocery manufacturing sector have indicated that it may not be possible to switch fuel source due to technical limitations and the need for significant upfront capital. As a

² Australian Government, *Eastern Australian Domestic Gas Market Study*, 2013

result, some manufacturers may reduce or cease domestic production resulting in job and income loss. This issue is particularly pertinent to the food, beverage and grocery industry due to limitations in manufacturer's ability to pass cost increase onto their major customers.

Policy recommendations

Reform in the Victorian gas market is urgent since price and supply challenges are compounding other impacts on manufacturing capabilities. The AFGC therefore welcome the Committee's focus on the use of gas as a competitive source of energy for Victorian industry.

The AFGC urges the Committee to examine the full nature of gas use within Victoria, the needs of energy users for an efficient, competitive market and the full economic and environmental opportunities that are linked to the outcomes in the gas market. The AFGC also acknowledges the flow on impacts of the Victorian gas market for industry in Tasmania.

It is vital that the Victorian Government commit to a new gas market reform agenda, in order to increase the competitiveness and efficiency of the Victorian gas market, which will deliver flow on benefits to the Victorian economy. While outside the scope of this review, the AFGC notes that areas of much needed policy reform in Victoria's gas market include;

- preventing the retention or withholding of existing reserves that are commercially viable – for example, a use-it-or-lose-it approach to retention leases or mandatory development of such reserves, and
- a review of the current joint marketing arrangements.

In the absence of reform, Victoria risks a decline in industry competitiveness, including loss of investment by new business, and loss of manufacturing jobs.

New sources of gas also play an important role. The AFGC is mindful of the potential impacts of unconventional gas developments, given the importance of land and water resources to the food, beverage and grocery manufacturing industry. The current moratorium should be accompanied by an assessment of the best available, independent scientific analysis to determine when, under what conditions, and in which areas, it should be lifted. This assessment must include the potential impacts of the different forms of unconventional gas and have regard to high value land use, such as dairy regions. Any future development of unconventional gas must be accompanied by robust protection for communities, water and land resources through appropriate Government regulation and oversight. Approaches such as harmonisation with the NSW Gas Plan should be given consideration as a framework for managing the impacts of unconventional gas. An open ended blanket ban on new unconventional gas development is not in the best interests of Victoria.