

SPEECH

**The Hon Ian Macfarlane MP  
Minister for Industry**

***Address to the  
CEDA Energy Series***

Amora Hotel Jamison, 11 Jamison Street, Sydney, NSW

Wednesday 10 September 2014

***\*\*Check against delivery\*\****

## Acknowledgments

- The Hon Nick Greiner AC—Former Premier of NSW and CEDA Governor
- Richard Warburton AO LVO—CEDA Governor
- Warren Mundine—Managing Director, NyunggaBlack and CEDA Governor
- Professor the Hon Stephen Martin—Chief Executive, CEDA

## **Introduction**

Thank you for the introduction and the invitation to speak with you today.

It's a pleasure to be here as I have a long-running affection for CEDA, in particular the Energy Series, which I also participated in during my role as Shadow Minister for Energy and Resources.

I've noted in the past, but it's worth saying again, issues relating to energy and energy market reform are central to our economy, because access to affordable and reliable baseload power has long been one of Australia's most potent competitive strengths.

It will be equally as important in building the industries of the future.

So thank you to CEDA for running this discussion series on energy and continuing your work in ensuring energy issues stay at the front of the agenda for the political community, the business community and for families and households.

## **The significance of energy policy**

I am particularly delighted to be with you here today because we are in the midst of a very busy time in the Industry portfolio.

Earlier this week, I joined the Prime Minister in announcing some of the biggest reforms to the skills and training sector in decades.

The focus is on ensuring our skills and training sector is industry-focussed and delivering real outcomes.

I've also been speaking about the new direction for industry policy in Australia, which must concentrate on our areas of competitive strengths and foster stronger links between industry and research.

The energy part of the portfolio has a strong association with this new direction, because it's the energy sector that is one of our greatest strengths and one of the areas in which we are at the forefront of global markets.

Hundreds of thousands of Australians earn their living through employment in the energy and mining industries.

And despite tighter market conditions, export earnings for mineral and energy commodities are forecast to increase 11 per cent in 2013–14 to \$196 billion.

For energy, the estimated increase is 6 per cent, taking total earnings to \$73.2 billion through higher revenue from LNG, crude oil and metallurgical coal.

The energy landscape has never been more dynamic, both in Australia and internationally, with the global energy map undergoing rapid change.

North America is set to become a net exporter of energy commodities towards the end of this decade as it increases its shale gas production.

We are also seeing strong competition coming from emerging lower-cost energy producing countries like South Africa and Brazil.

Asia continues to grow as the key global energy consumer.

Just a decade ago, it was unthinkable China would import more oil from the Middle East and soon consume more oil in total than the USA—not anymore.

Here in Australia, the world's first export of coal seam gas-based LNG will start to flow from the east coast by the end of this year.

This puts us on track to become the world's largest gas exporter in five years.

Meanwhile, energy consumption and generation patterns are changing like never before.

### **Securing our energy future**

In the face of these dynamics, a key question is how do we ensure Australia's energy supply is secure and affordable to meet business and household needs into the future?

Energy drives the Australian economy and underpins our future prosperity.

Our energy production is continuing to rise, going up by 9 per cent in 2012–13.

Exports also rose 14 per cent, which is about 80 per cent of our production of energy commodities.

Australia's significant energy resource endowment positions us well to help meet growing demand in Asia and, at the same time, meet domestic needs.

But having access to abundant energy reserves doesn't necessarily bring energy security and affordability.

Energy security and affordability depend on how we maximise the benefits of well-functioning markets.

Competitive markets should drive pricing, supply contracts and project investments.

Second, the policy and regulatory settings should be right.

## **Government's role**

The Government will soon be releasing the Energy Green Paper, ahead of an Energy White Paper in a few months' time.

Our objective is clear – Australia must have a comprehensive and coherent blueprint for the development of the energy sector.

Our abundance and diversity of energy supplies has given Australia the opportunity to firmly establish itself as an energy superpower.

It's an opportunity the energy sector has grasped and then run with.

Australia's reach into international energy markets is extensive, supplying in-demand commodities including LNG, coal and now uranium.

For domestic consumption, Australia is blessed with a diversity of energy sources.

But Australia can't afford to become complacent about our role in global energy markets.

This is especially the case after six years in which disastrous policies were put in place by our Government's predecessor that not only eroded our competitive edge in energy markets, but actively sought to put a handbrake on our energy industry through policies such as the carbon tax and the mining tax.



## **Energy White Paper**

With a vision that looks to the long term, the Government is putting in place a comprehensive national policy on energy that will secure Australia's domestic energy needs well into the future, maintain international competitiveness and grow exports.

Work on our Energy White Paper is well underway.

We started the first phase of this work with the release of an issues paper last December to kick off a consultation process.

We received more than 260 submissions, with common themes such as the need to manage electricity and gas price rises, improve the efficiency and transparency of energy markets and alleviate east coast gas shortages.

The next stage is a Green Paper, which will assess the issues proposed in the consultations and put forward policy approaches for public comment, followed by the White Paper, articulating a clear energy policy for the decades ahead.

Many of us who keenly observe the energy sector can take a pretty good guess at what our next big challenges are.

But not everyone watches the energy sector quite that closely.

Therefore one of the most important outcomes I would like to achieve through the Energy White Paper is to set up a platform from which we can make these future policy decisions, with the broadest audience in mind.

This will enable policy makers and the Australian community to make informed decisions about what we need to do in advance of any one topic becoming a “hot issue”.

A case in point is the looming gas supply issue in NSW, which I have been discussing for a good five years now.

## **NSW gas supplies**

Securing a long-term gas supply in NSW continues to be one of the most pressing energy issues facing Australia.

Very little of the gas used in NSW comes from sources within the state. NSW relies on Victoria, South Australia and Queensland for its gas supplies.

Many historic long-term supply contracts will run out between next year and 2018.

South Australian and Queensland gas is now heavily committed to LNG export projects that are due to start production by the end of this year.

While Victoria can increase supply to NSW, NSW can take control of its energy future by developing its own gas resources.

I accept that the industry has social licence issues to resolve.

However, the imposition of development moratoriums and ongoing regulatory change has created an environment where investment in resource development becomes all but impossible.

It is difficult to understand this is happening in a state where most gas is imported, but large gas resources are available for development, and where demand is strong and increasing supply is the best way to combat rising prices.

In contrast, just over the border in Queensland, with an industry that is many times the size of that proposed for NSW, we see a different picture altogether.

I strongly believe that by developing its own domestic resources, NSW will be in a stronger position to ensure secure natural gas supplies in this State.

However time is running short.

I have spoken to the NSW Premier Mike Baird on this issue and I respect that he understands the significance of this issue.

The Commonwealth will continue to work constructively with NSW on this issue, but ultimately it is a matter that must be addressed by NSW.

### **Northern Territory gas link**

An important part of an efficient gas market is new infrastructure that links markets, builds resilience and enables new gas resources to be developed.

A pipeline that links the Northern Territory and the Eastern Gas Market could resolve some of the challenges facing the market.

Depending on the route, such a pipeline may assist in realising the potential of shale and tight gas in basins across northern and central Australia, giving producers several market options to bring this gas into commercial production.

Any new supply is welcome in the eastern Australian market. Gas from the Top End could help alleviate potential shortages in NSW in the years ahead.

However, any decision to proceed with a pipeline link will have to be founded on sound and robust commercial realities.

There will also need to be guaranteed supply and firm, long-term demand. If NSW wants gas, it needs to compete for it in the market.

Any decision will need to consider and resolve capacity constraints on other linking pipelines in the network, if sufficient gas volumes are to be made available to ensure the economic feasibility of pipeline construction.

This is in line with the Government's policy that energy infrastructure be developed on commercial merit and independent of Government subsidies.

I welcome the feasibility study by pipeline proponent APA Group, but any link offers must be competitive and open to all pipeline investors.

## **RET**

Of course no discussion about energy policy in Australia would be complete without reference to that other substantial issue in the energy and resources space – the review of the Renewable Energy Target.

Let me be clear, because in the hubbub, murmurings and wild speculation about the RET, clarity can be a rare commodity – the Government is not suggesting the RET should be scrapped.

No one is advocating the end of renewable energy in Australia.

No one has been blindsided by this review, no one has been left out and no one's voice has been censored.

Before the election last year, the Coalition was crystal clear that a review of the RET would take place this year.

Why was that the case? Because the requirement for a review every two years was included in the original legislation, at the request of the renewable energy industry and supported by the then Labor Government.

The Coalition agreed to this requirement in response to the industry request.

The Coalition has always taken a bipartisan approach to RET policy.

I can say that with authority because I've been part of the process every step of the way since a RET was established by the Liberal/National Party Howard Coalition Government 14 years ago.

I was involved in the negotiation with Penny Wong as the responsible Labor Minister in 2009 when the 20 per cent target was introduced.

And I've been involved in the current Government process along with my colleague Greg Hunt.

We appointed an independent expert panel to undertake the review, and it was tasked with investigating whether the RET is working efficiently and effectively.

The independent panel ran an open and transparent process and consulted widely before finalising its report, which is publicly available.

The Government will consider the findings of the panel's review in the context of the costs and benefits of the scheme, the impact on electricity prices and markets and investment issues.

The Government will announce its response to the report in the coming weeks.

The Government will not make changes that will impact those who have already made an investment – small or large – under the RET.

This means that regardless of what decisions are made about the RET, nothing will change for those who have installed roof top solar and large scale investments such as wind farms or hydro power stations will be protected.

The only threat to the RET will come from the Opposition if it chooses to play politics with the issue, instead of continuing the long-standing bipartisan approach of negotiating on renewable energy policy.



It's up to the Labor Party to decide whether it wants to be part of ensuring the RET scheme is working as intended in a way that allows renewable energy to play a role in delivering affordable and reliable energy for Australia.

Or the Labor Party may choose to be political, obstructionist and ultimately act in a way that undermines renewable energy in Australia.

For my part, I always take a practical, pragmatic and open approach to negotiating policy with all MPs, Senators and parties, and I will continue to do so.

## **Energy market**

The context in which we must consider RET policy is a national energy market that is oversupplied.

The 2014 Electricity Statement of Opportunities released by the Australian Energy Market Operator last month forecasts there will continue to be a surplus of generation capacity, due to a low annual growth rate for electricity consumption.

And no new generation will need to be built to meet system reliability standards in the NEM until after 2023–24.

In 2014–15, there could be as much as 8,950 megawatts of surplus capacity.

That's the equivalent of nine big power stations of excess capacity in generation in Australia.

Even after 10 years, between 4,650 and 10,200 megawatts could be withdrawn from NSW, Queensland and Victorian markets without affecting system reliability.

The Australian Energy Market Operator says the surplus comes from energy efficiency measures, a decline in energy-intensive industries, strong growth in rooftop PV installations and new generation coming onto the market.

So we need to be sure that the RET is delivered in a way that fits in with this new market dynamic, and is not adding undue cost to households and making industries uncompetitive.

The RET has already cost customers \$9.4 billion in direct REC costs.

If we continue with the current target it will cost another \$22 billion in direct REC costs.

While it is essential that Australia weighs up questions relating to long-term energy security and supply, for the foreseeable future Australia has excess energy supplies.

## **Renewable Energy**

The Government supports renewable energy.

The Coalition is supporting \$1 billion of investment in the research and development of new renewable energy technology concepts.

One billion dollars is a significant investment in any industry and we believe that taxpayers must see the outcomes from their investment.

Nearly 200 projects across a range of renewable energy technologies have received funding.

As well as in renewables, this Government also sees the value of investing in innovation across all industries.

The Government is investing \$2.25 billion in Industry programmes for innovation in all sectors, harnessing our strengths and delivering real outcomes and real jobs.

Through CSIRO's Energy Flagship, the Government is supporting a group of around 350 scientists to pursue a dedicated energy research programme that will help enable Australia's energy transition while enhancing Australia's economic competitiveness and regional energy security.

The Government has allocated funding totalling \$2.1 million through the Solar Towns Programme to support households who choose solar as a way to reduce their power bills.

The Government is also committed to tackling climate change with effective and practical solutions through the \$2.55 billion Emissions Reduction Fund.

We want to ensure that renewable energy continues to make a contribution to Australia's energy mix, but just as we wouldn't advocate investing exclusively in coal-fired electricity or exclusively in gas, to pour all of our energy investments into renewable energy would be equally as counterproductive for energy security.

Australia's greatest energy strength comes from the diversity of our supply.

We intend to pursue policies that maintain this diversity.

Renewable energy will continue to be part of the mix.

## **Conclusion**

The vital importance of Australia's energy industry to the nation's economy cannot be over-emphasised.

Australia is consolidating its position as an energy superpower.

However, there are challenges in energy markets and the business environment that must be tackled.

The Government has taken action to create a positive business environment by abolishing the carbon and mining taxes and cutting red tape.

We will continue our work to get the policy settings right because sound energy policy is crucial to securing Australia's ongoing international competitiveness and long-term energy future.

I'll continue to work with the states and with industry to establish frameworks in which energy markets can operate and deliver the best results for consumers, as well as underpin investment in reliable and affordable energy supplies.

(Ends)