

Why onshore gas will not help manufacturing in the NT

Manufacturers could have accessed near-free gas in the Northern Territory between 2009 and 2019. Yet gas-related manufacturing declined, despite millions spent in attempts to woo industry. Attempts to develop such industries now are likely to be futile given the high cost of onshore gas and prices linked to international and national markets. Stimulus policy should be directed to more viable, sustainable and labour-intensive industries.

Briefing Note

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July 2020

INTRODUCTION

The Northern Territory government has appointed Darwin-born international gas industry executive Andrew Liveris to chair its Economic Reconstruction Commission. In a media interview, Mr Liveris emphasises the potential for expanded gas production in the Territory to lead to increases in various manufacturing industries:

[Development of the Beetaloo Basin could] enable incredible value add in areas like fertilisers, methanol and petrochemicals, that is very rare.

[Almost] 90 per cent of the topic in the Territory should not be for electrons, it should be value add to create incredible new industries.¹

According to Mr Liveris this development “could be the backbone of a complete new Territory economy if we do it right.” This echoes Federal Energy Minister Angus Taylor’s calls for a “gas-fired recovery”.²

Leaving aside the significant problems faced by the industry internationally, with majors like BP refusing to “drink the petrochemical kool-aid”,³ calls for gas-based manufacturing in the NT overlook the fact that the NT, and much of Australia, enjoyed abundant gas supply and relatively cheap prices until recently. Despite cheap and abundant gas, gas-related manufacturing industries did not develop.

It is incumbent on supporters of petrochemical development to explain to how this industry can develop with expensive gas, when it did not develop when gas was plentiful and cheap.

GAS SUPPLY AND PRICE IN THE NT

The NT has access to many and varied supplies of gas. Gas supplies came first from oil and gas fields near Alice Springs. Offshore developments began with the Darwin LNG project exporting gas in liquid form from 2006.⁴ In 2009 the Territory began being supplied mainly from the offshore Blacktip Project, which was subsidised by a \$4.4 billion purchase commitment from the NT Government’s Power and Water Corporation (PWC).⁵ This brought far more gas to the NT than the Territory itself needed, as acknowledged by the NT Utilities Commission:

¹ Shipway (2020) *Onshore gas industry ‘critical to the Territory’s future’*: Liveris, <https://www.adelaidenow.com.au/news/national/onshore-gas-industry-critical-to-the-territorys-future-liveris/news-story/e65ed1fdf14690dde4c70717d2da2112?btr=9c6040a9704685a95e02c297b91bbeed>

² Foley (2020) Gas to fire economic recovery and capitalise on cheap oil prices, <https://www.smh.com.au/politics/federal/gas-to-fire-economic-recovery-and-capitalise-on-cheap-oil-prices-20200421-p54lw8.html>

³ McDonnell (2020) *Why BP bailed on the oil industry’s one “bright spot”* <https://finance.yahoo.com/news/why-bp-bailed-oil-industry-080009780.html>; The Economist (2020) Oil companies’ diversification into petrochemicals may not go to plan, <https://www.economist.com/business/2020/06/27/oil-companies-diversification-into-petrochemicals-may-not-go-to-plan>

⁴ APPEA (2019) Australian LNG projects, <https://www.appea.com.au/oil-gas-explained/operation/australian-lng-projects/>

⁵ Campbell (2020) *Fracking and slacking: NT Government subsidies to onshore oil and gas*, <https://www.tai.org.au/content/frackers-are-slackers-94-million-subsidies-onshore-gas-territory>

Contract quantities available from Blacktip will be in excess of projected requirements under the Commission's high growth scenario through to 2015-16 and beyond.⁶

PWC's reports soon began to make reference to "surplus gas" and efforts to sell it:

The Gas Supply Unit (GSU) will continue to endeavour to sell PWC's surplus gas entitlements to new gas customers in the Northern Territory market.⁷

While the losses relating to Blacktip gas are unknown, NT taxpayers spent millions in subsidies and committed \$1.3 billion to gas transport in an attempt to find some use for the gas the NT did not need.⁸ The subsidised Northern Gas Pipeline began piping NT gas to Queensland in 2019.

On top of this, the Inpex LNG project brought further offshore gas to Darwin, beginning exports in October 2018.

Not only does the NT have access to large gas supplies, but for the period between 2006 and 2019 PWC was spending millions paying for gas it did not take and more money looking for parties to sell this gas to. PWC reports suggest Blacktip gas commitments were made for around \$5 per gigajoule (GJ). But because PWC was paying for gas it could not use, it is likely that during this period PWC would have sold its surplus gas at near-zero prices, keen to offset these losses in any way. In particular, PWC and the NT Government would have been likely to provide cheap gas to any project that could generate significant employment and industrial diversification.

In the next section, analysis of census data shows that this did not occur.

The days of near-free gas in the NT are over. Multiple LNG facilities with potential for expansion link the NT directly to international markets. The Northern Gas Pipeline links the NT to Queensland and the wider East Coast market. Prices in these markets are being affected by the COVID-19 crisis, but have a long term outlook at around \$9-12/GJ.⁹ The Australian Petroleum Exploration and Production Association (APPEA) notes that new gas supply in Australia costs between \$6 and \$8.25/GJ before

⁶ NT Utilities Commission (2006) Annual power system review December 2006, https://utilicom.nt.gov.au/_data/assets/pdf_file/0008/743039/2006_PSR_final.pdf

⁷ PWC (2015) Annual Report, p48, https://www.powerwater.com.au/_data/assets/pdf_file/0019/5392/Power-and-Water-Annual-Report-2014.pdf

⁸ PWC annual reports analysed in Campbell (2020) *Fracking and slacking: NT Government subsidies to onshore oil and gas*.

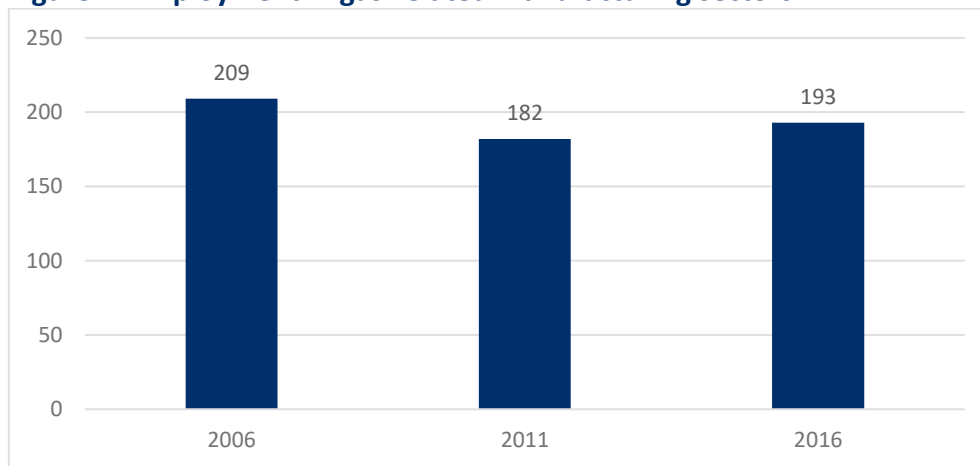
⁹ ACCC (2020) *East coast gas prices appear too high and future supply is uncertain*, <https://www.accc.gov.au/media-release/east-coast-gas-prices-appear-too-high-and-future-supply-is-uncertain>

transport, distribution and other commercial costs.¹⁰ Onshore NT gas is therefore likely to cost at least \$10/GJ to potential customers.

GAS RELATED MANUFACTURING IN THE NT

Census data shows that during the period of near-free gas in the NT, employment in gas-related manufacturing decreased, from 209 people to 193, as shown in Figure 1:

Figure 1: Employment in gas-related manufacturing sectors



Source: ABS Census, accessed via TableBuilder Basic

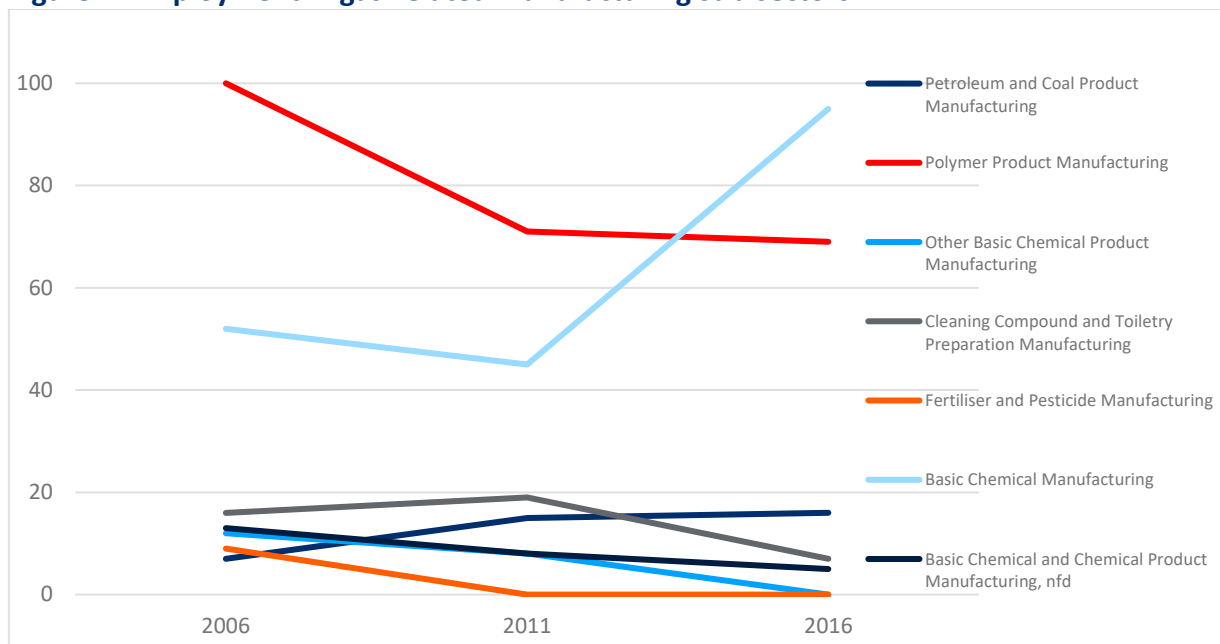
The data in Figure 1 comes from the following ABS industry categories:

- Petroleum and coal product manufacturing
- Basic chemical and chemical product manufacturing
- Polymer product and Rubber Product manufacturing

Within these categories the major changes came in two sub-industries, Basic chemical manufacturing employment increased, while polymer product manufacturing decreased, as shown in Figure 2 below:

¹⁰ Toscano (2020) *Incitec Pivot CEO steps up push for cheaper gas amid oil market rout*, <https://www.smh.com.au/business/companies/incitec-pivot-ceo-steps-up-push-for-cheaper-gas-amid-oil-market-rout-20200701-p557zx.html>

Figure 2: Employment in gas-related manufacturing sub-sectors



Source: ABS Census, accessed via TableBuilder Basic

As shown in Figure 2, some sub-industries went from small to zero – Fertiliser and pesticide manufacturing went from 9 to zero. Other basic chemical product manufacturing” from 12 to zero.

CONCLUSION

The NT did not develop gas-based manufacturing during its period of near-free gas, but not because of lack of trying. Millions were spent on “gas project promotion” and initiatives like a gas industry taskforce.¹¹

The reasons manufacturing has struggled in parts of Australia relate more to remoteness in the case of the NT, and in the rest of Australia wider policies around innovation, aggregation clusters, skills, industrial infrastructure and more.¹² Chasing expensive gas will not address these issues.

Stimulus spending should follow well-established economic principles:

- Go early: Timeliness of the stimulus is key
- Go hard: The size of the stimulus is important

¹¹ Campbell (2020) *Fracking and slacking: NT Government subsidies to onshore oil and gas*

¹² Stanford (2016) *Manufacturing (still) matters: Why the Decline of Australian Manufacturing is NOT Inevitable, and What Government Can Do About It*, https://www.futurework.org.au/manufacturing_still_matters

- Go households: households who are more likely to spend stimulus funds
- Target domestic production
- Target activities with high direct employment intensities
- Target those most impacted by the crisis
- Target useful projects that deliver co-benefits
- Target regional disadvantage¹³

Subsidising gas-related manufacturing based on high-cost unconventional gas reserves meets few of these principles. This would take a long time to implement, provide minimal benefit to households and assist highly capital intensive industries. Policy assistance should instead be directed towards labour-intensive service industries such as tourism, health care and education, or industries that provide long term environmental benefit such as renewable energy or improved agricultural practice.

¹³ Desniss et al (2020) *Design Principles for Fiscal Policy in a Pandemic How to create jobs in the short term and lasting benefits in the long term*, https://www.tai.org.au/sites/default/files/Design%20Principles%20for%20Fiscal%20Policy%20in%20a%20Pandemic%20%5BWEB%5D_0.pdf