

The Australia Institute

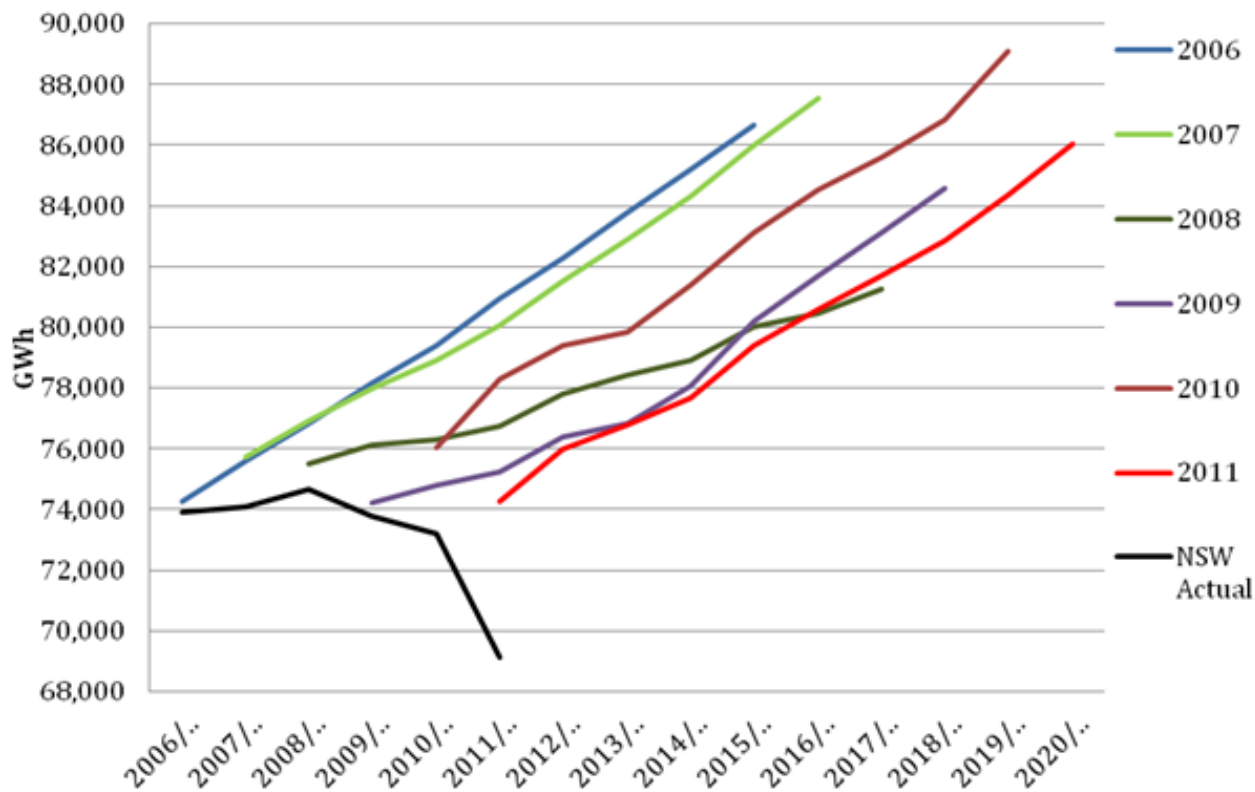
Research that matters.

Coal and gas economics workshop
Sydney
11 August 2014

The Australian coal and gas rush

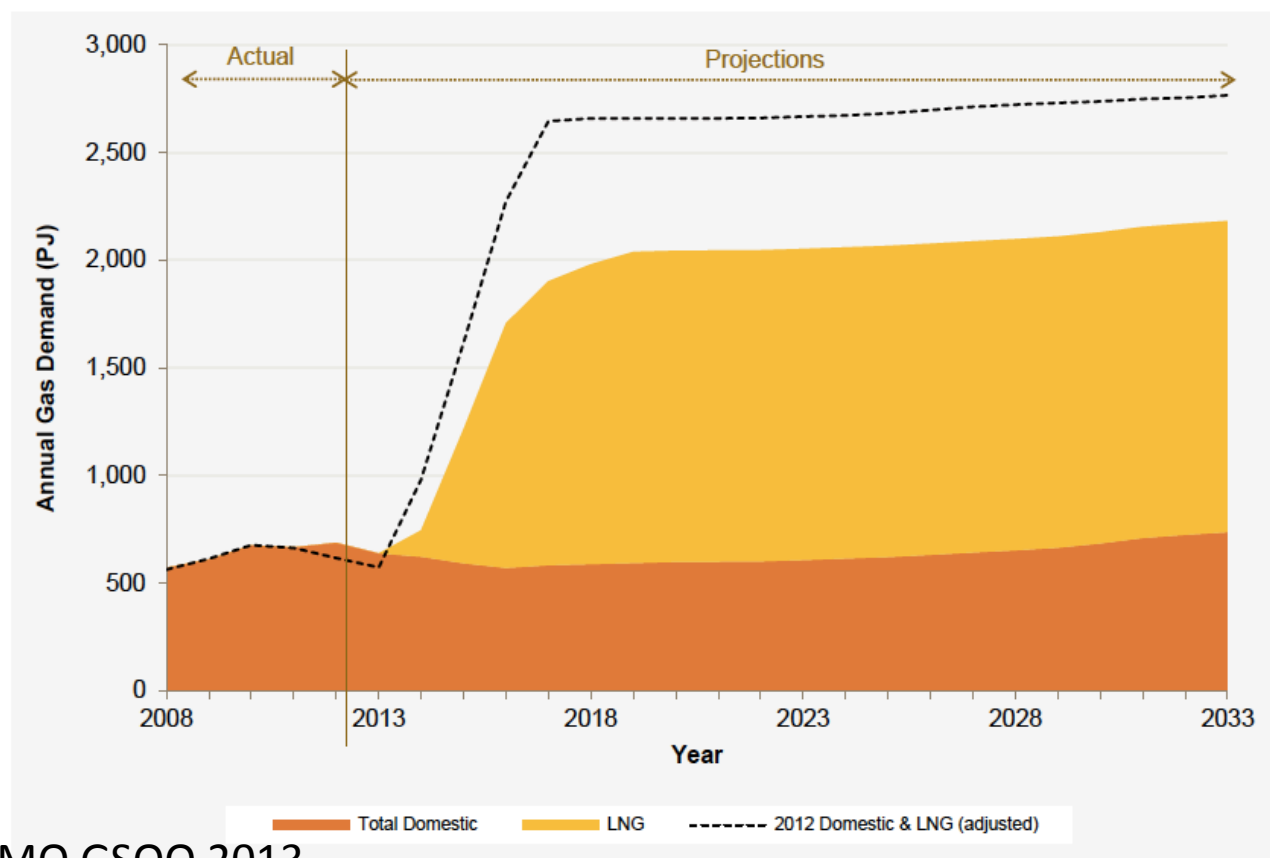
Electricity demand is falling.

AEMO Electricity Demand Forecast - NSW



Gas demand is falling.

Figure 4 — Total annual gas demand

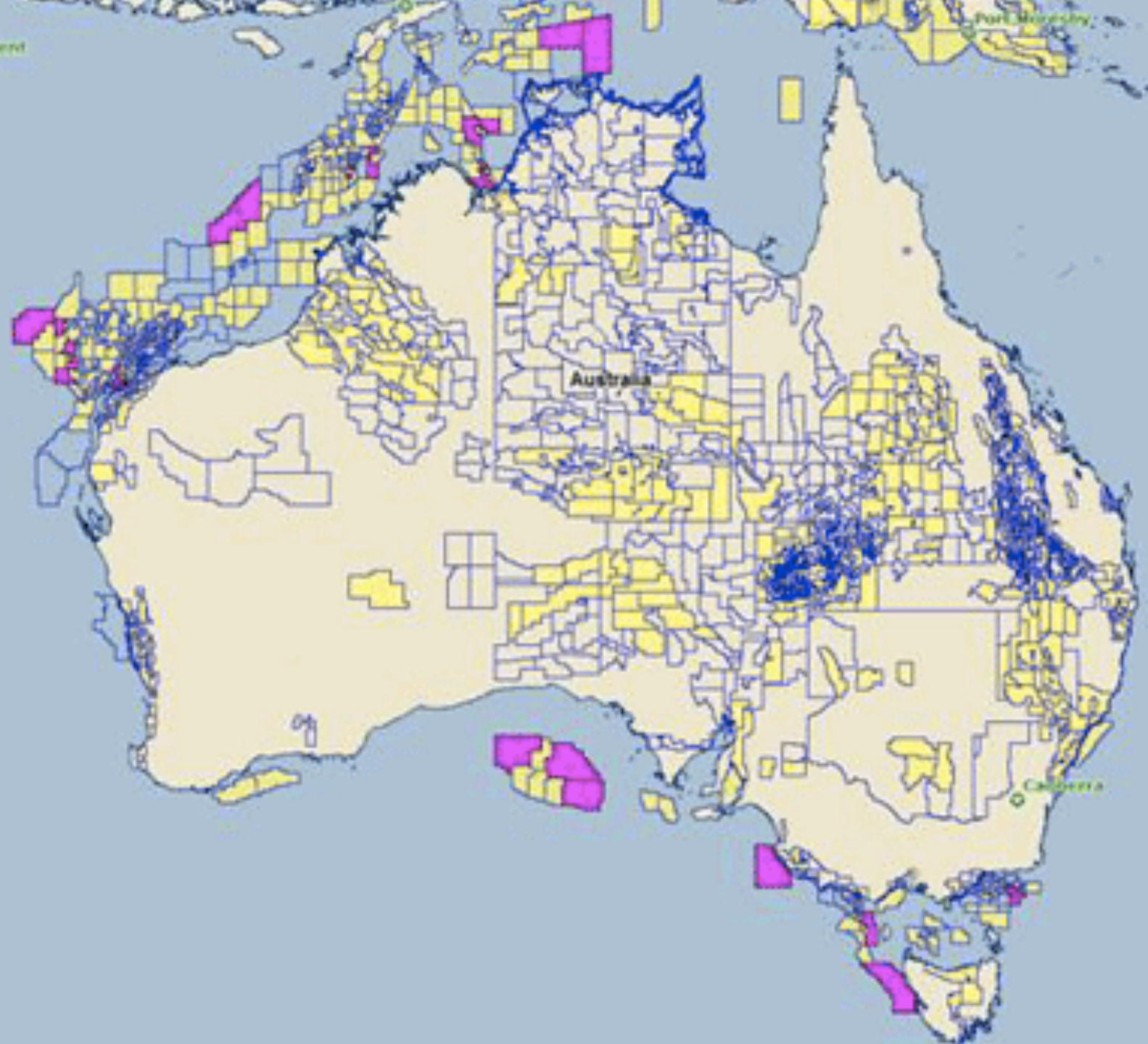


Source: AEMO GSOO 2013

Linking to the Asian market



Source: BP Statistical Review of World Energy Gas Section 2013



Kenya CSG gas field
near Tara, Darling Downs QLD











\$3 Million Awarded to North Texas Family in Fracking Lawsuit

APRIL 23, 2014 | 5:08 PM

BY MOSE BUCHELE

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A Texas family sued a drilling company was awarded close to three million dollars this week by a Dallas County jury. The decision is being called a landmark one by people opposed to hydraulic fracturing or “fracking,” and touted as a first by the plaintiffs’ legal team.

“The fracking industry has really just taken off in the last three or four years. So really this is a new problem to the extent that we’re seeing cases now that are getting a verdict,” David Mathews, a lawyer representing the Parr family, tells Statelmpact Texas.



RON JENKINS/FORT WORTH STAR-TELEGRAM/MCT

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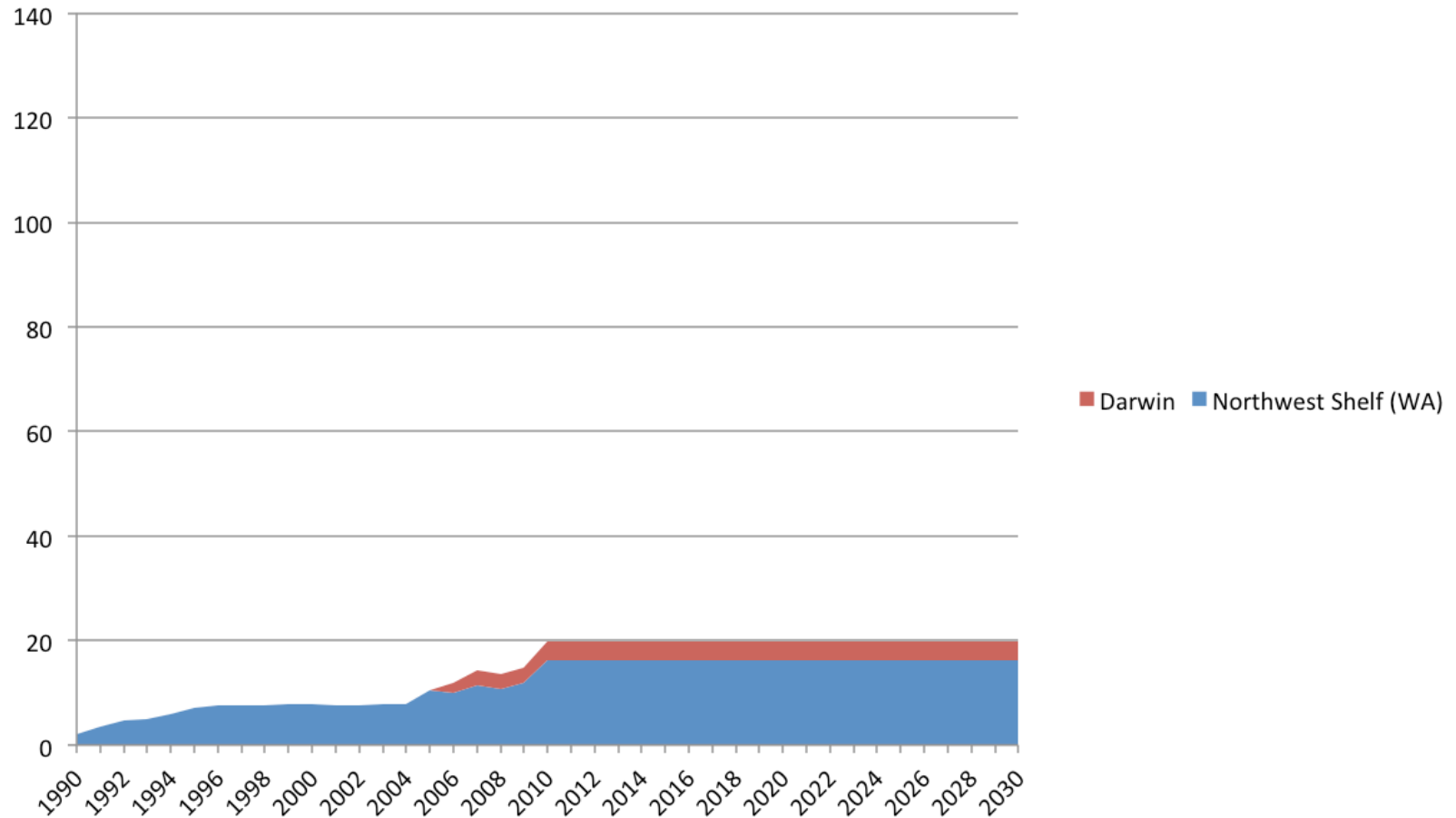


Metgasco Casino tight gas well explosion 2013

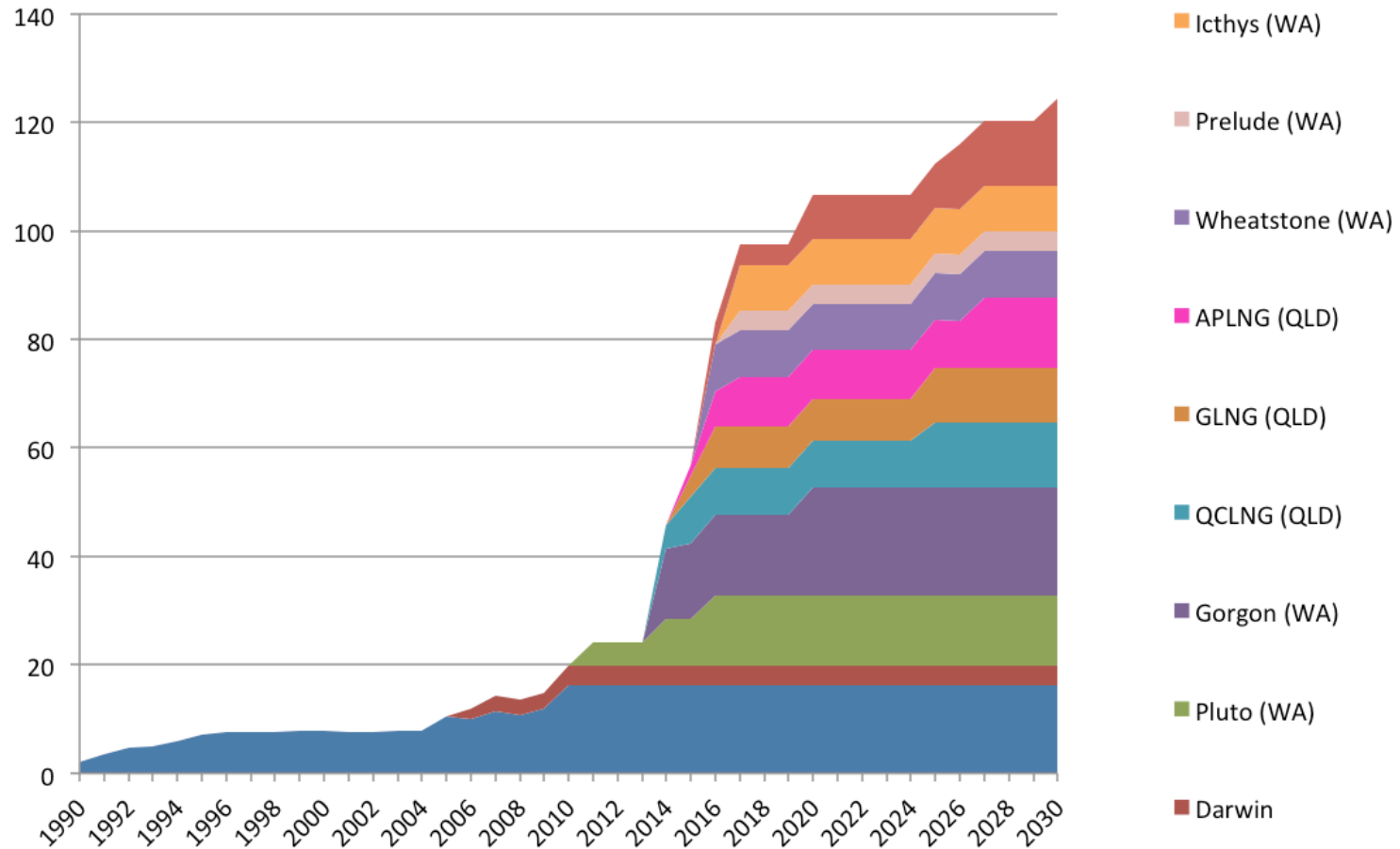
Suspended pipe after Metgasco well explosion

Macro-economic impacts

Current LNG production in Australia



The expansion of Australian gas exports



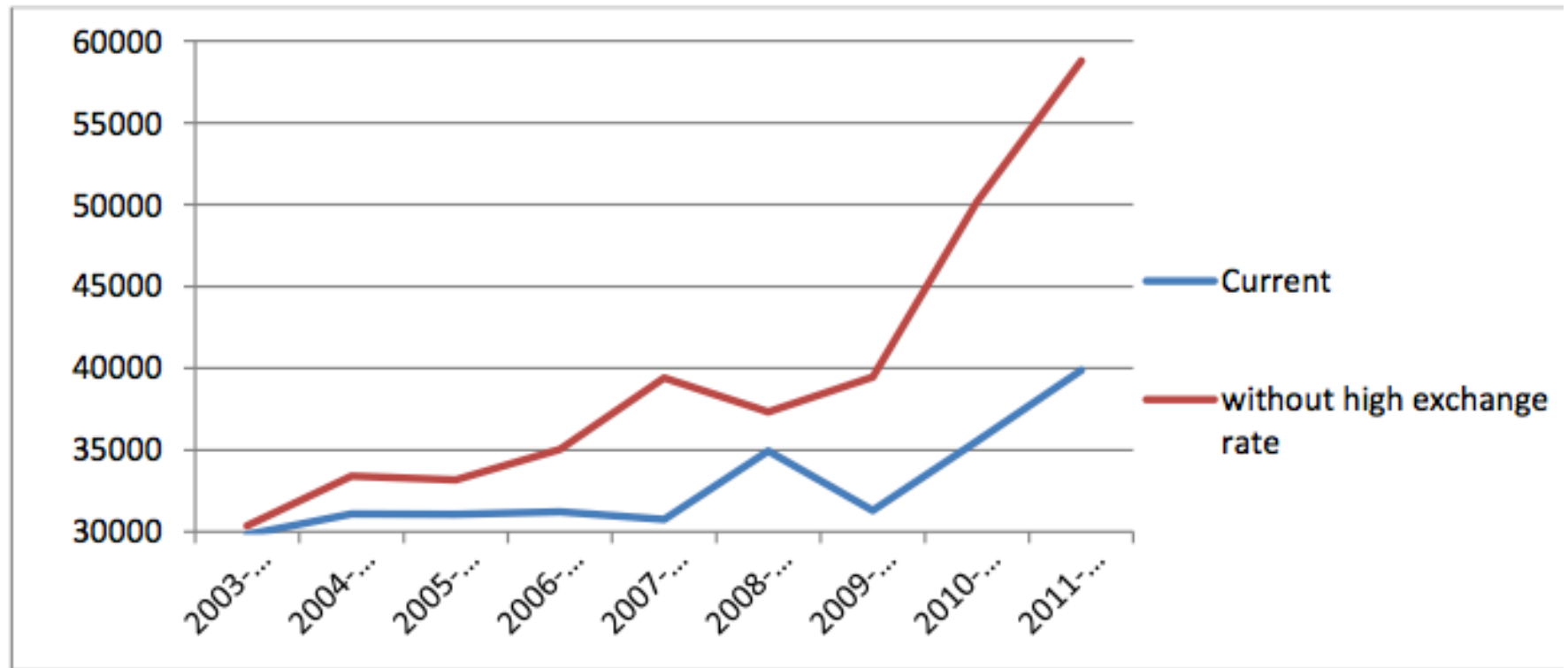
“Crowding out”
The more mining.....the less of everything else



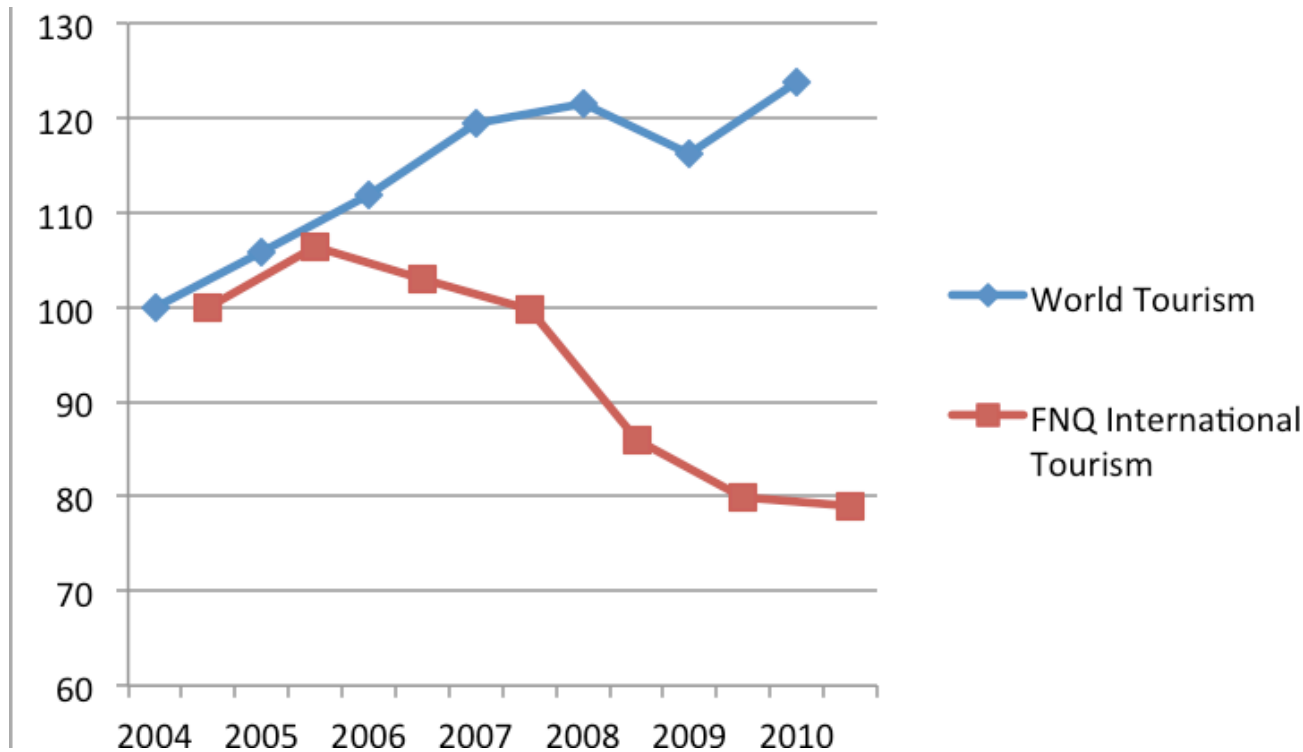


AUD impact on farm export income

Figure 2 – Value of rural exports: actual and without the high exchange rate



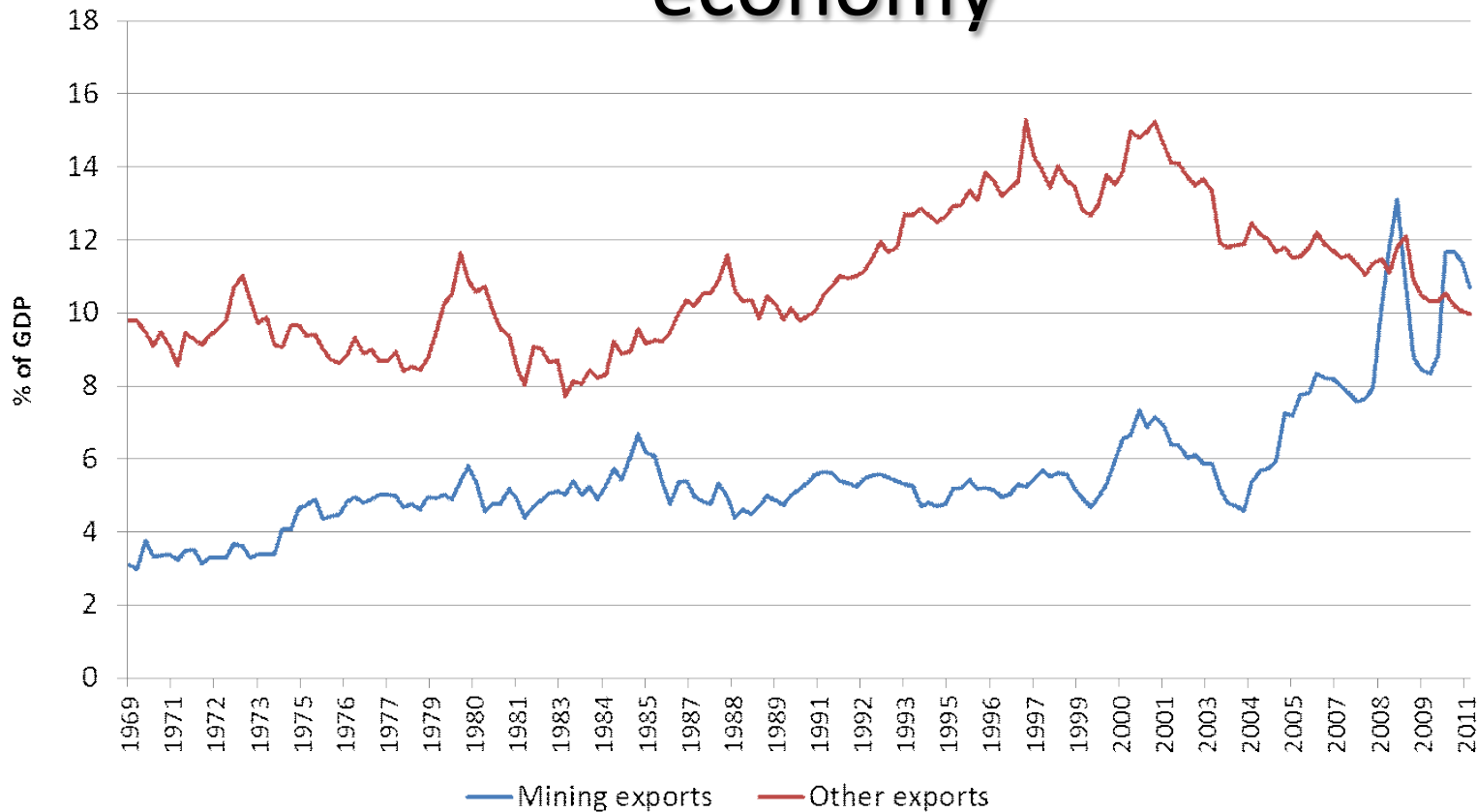
25% drop in FNQ tourism during a 20% global tourism boom!



Source: TAI analysis 2011 based on
Queensland Government Office of Economic and Statistical Research and
World bank International tourism statistics

The big picture

The demise of Australia's diversified economy



Source: Denniss and Richardson,. Mining the Truth 2011

The impact of the Arrow LNG gas project

Arrow Energy's own Environmental Impact Statement (EIS) acknowledges:

- The loss of 1,600 jobs across Queensland and Australia; 1,000 in manufacturing.
- \$441.5 million of manufacturing activity will be lost.
- Upward pressure on inflation.
- Small and medium sized businesses will be hit with higher bills for payroll and rent. This could result in some of them shutting down.

Source: Grudnoff (,2011). Submission on Arrow Energy's Gladstone LNG project",

The impact of the China First coal mine

Waratah Coal's Environmental Impact Statement (EIS) acknowledges:

- 3,000 jobs will be lost across Queensland and Australia particularly in manufacturing, agriculture and tourism.
- \$1,249 million of manufacturing activity will be lost.
- Inflation will rise.
- Small and medium sized businesses will be hit with higher bills for payroll and rent. This will result in some of them shutting down.
- Housing affordability will decline for those who are not employed in the new mine.

Source: Denniss (2011). An analysis of the economic impacts of the China First mine.

Mining did not save us from the GFC!

“In the first six months of 2009, in the immediate aftermath of the shock waves occasioned by the collapse of Lehman Brothers, the Australian mining industry shed 15.2 per cent of its employees.

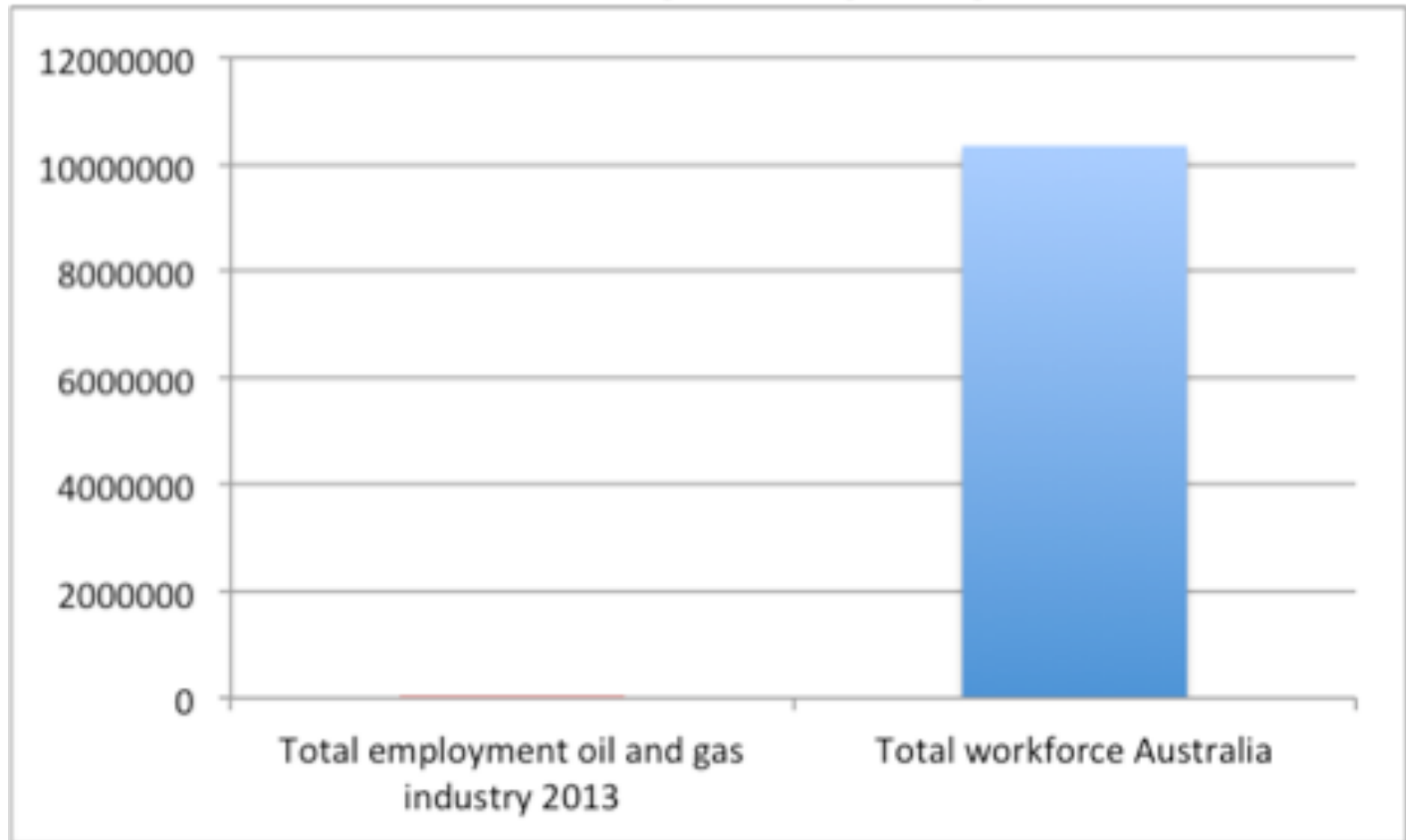
Had every industry in Australia behaved in the same way, our unemployment rate would have increased from 4.6 per cent to 19 per cent in six months”

- Ken Henry: Former Treasury Secretary 2001-2011

Source, Maiden S (2010) Mining super profits tax wont hit cost of living
Ken Henry tells Senate Estimates, The Australian .

The gas industry

How many people does the gas industry employ?



Source: Grudnoff, M (2014) Fracking the Future.

How many jobs did the Oil & Gas Industry create last year?

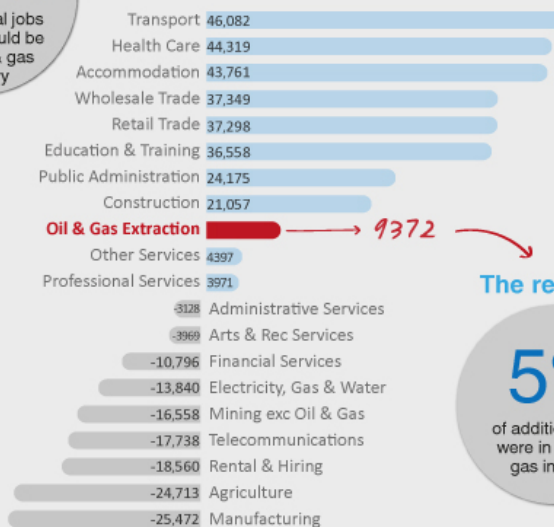
"Australia's natural gas industry created an estimated **100,000** jobs last year" - APPEA

If this were true then

58%

of additional jobs created would be in the oil & gas industry

Which industries created additional jobs?



= 173,537 additional jobs

The reality is

5%

of additional jobs were in the oil & gas industry

Does the Oil & Gas Industry really believe that it created most of the additional jobs?

References :

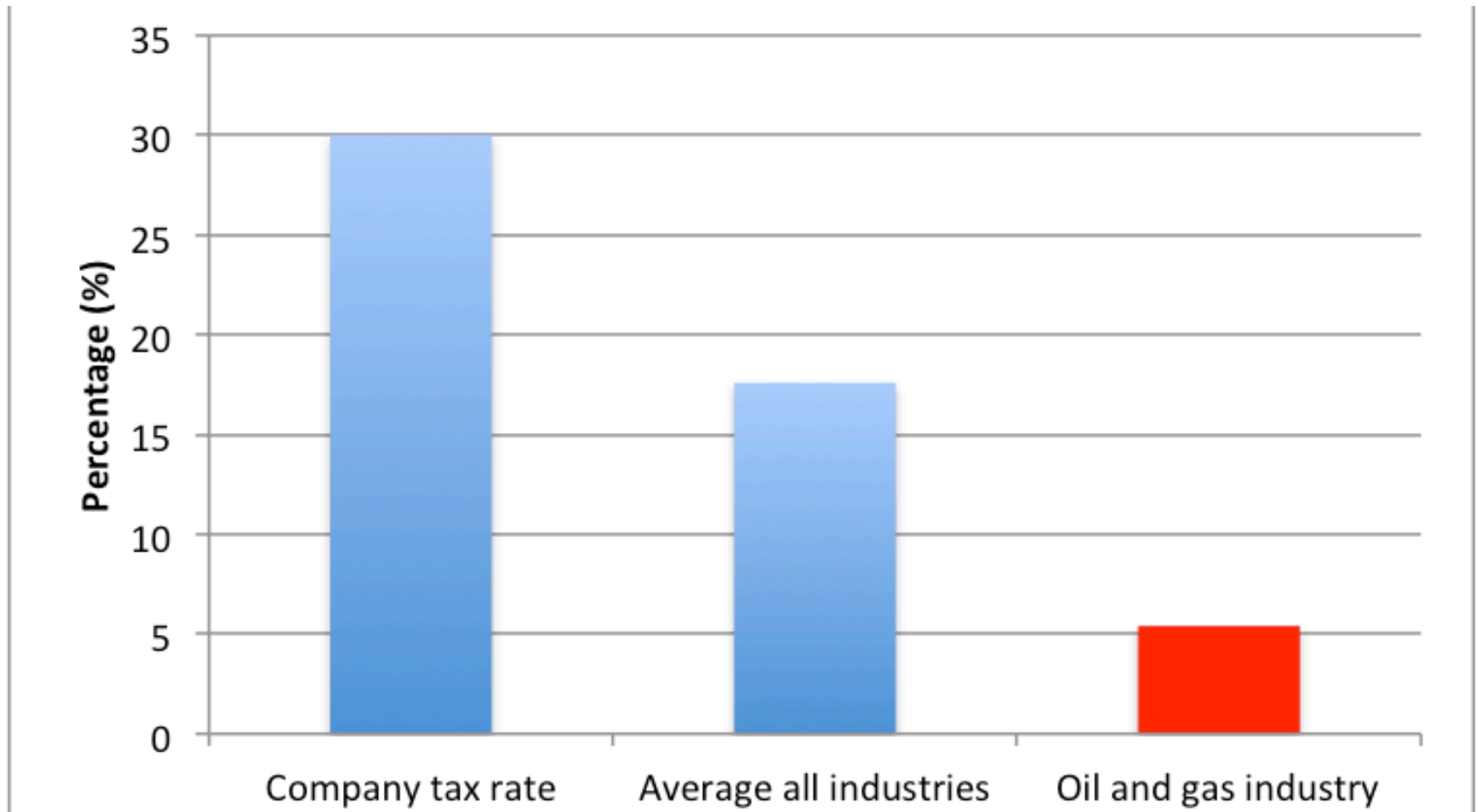
ABS 6291.0.55.003, Table 04 & 06
Australian Petroleum Production and Exploration Association (APPEA)
Natural Advantage website

Check out all our infographics at
australiainstitute.tumblr.com

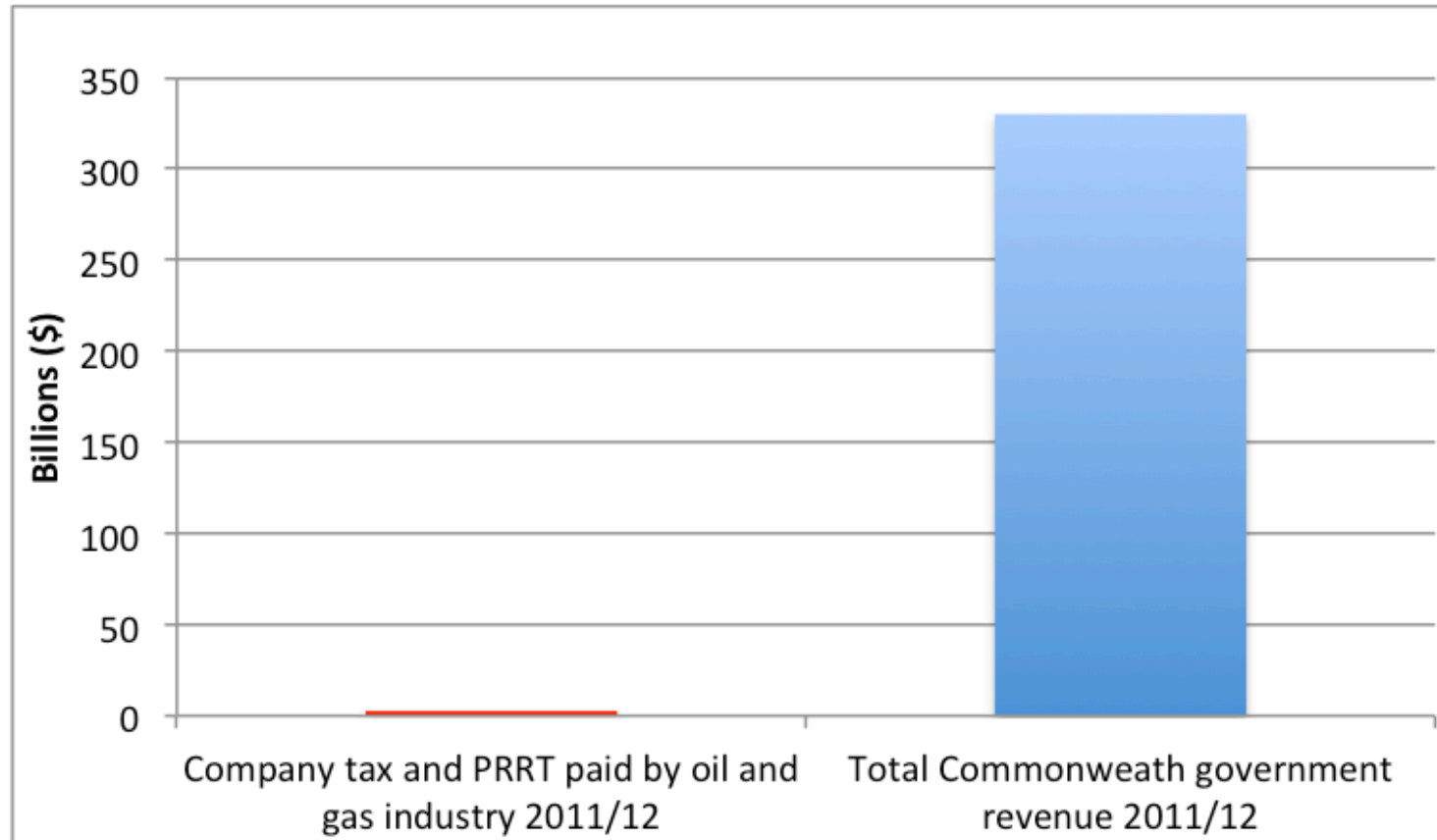
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Aug 2013

What company tax rate do the oil and gas industry pay?



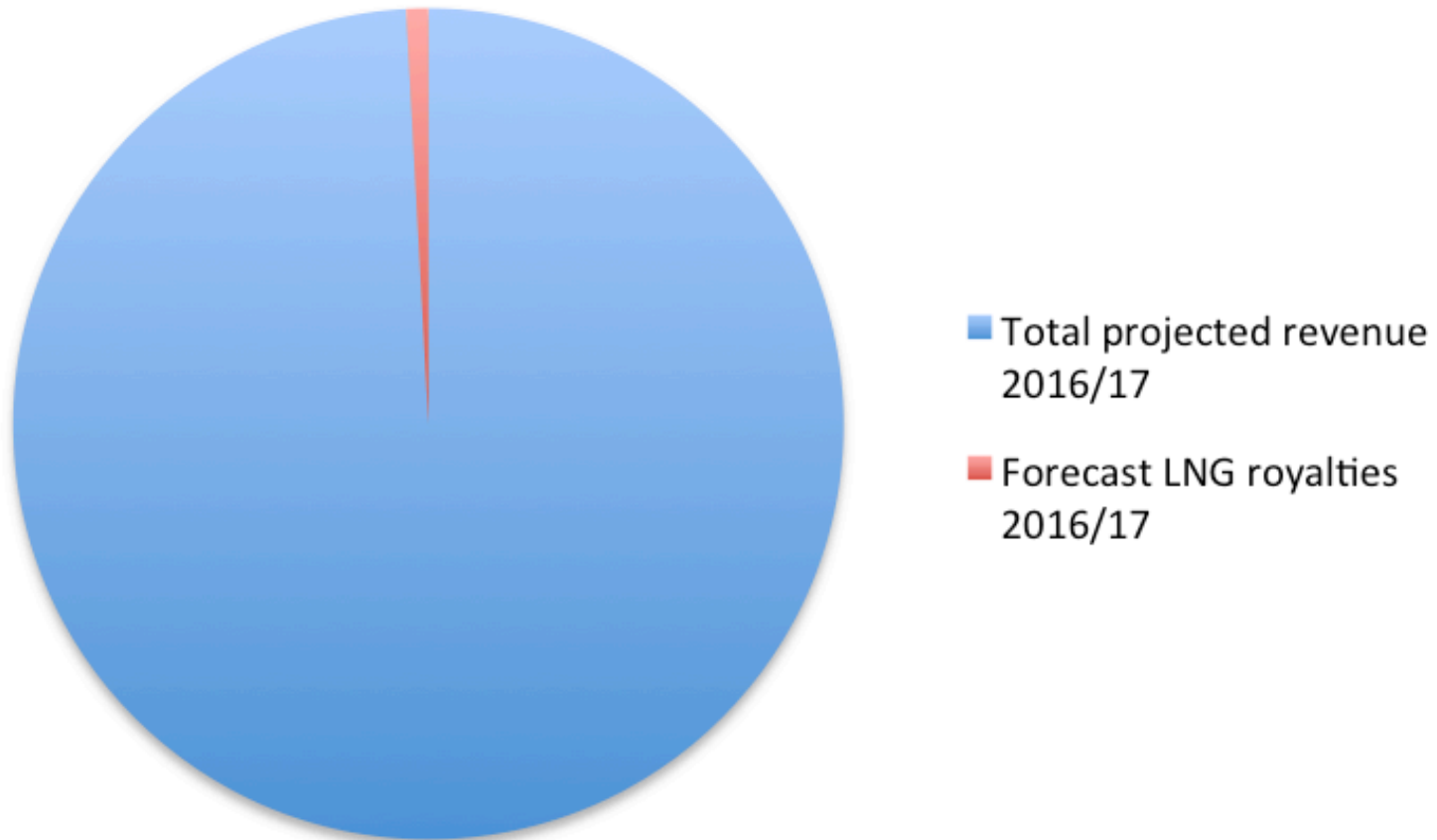
How much does Australia rely on gas industry taxes?



Sources: ATO (2012), Commonwealth Budget papers 2012

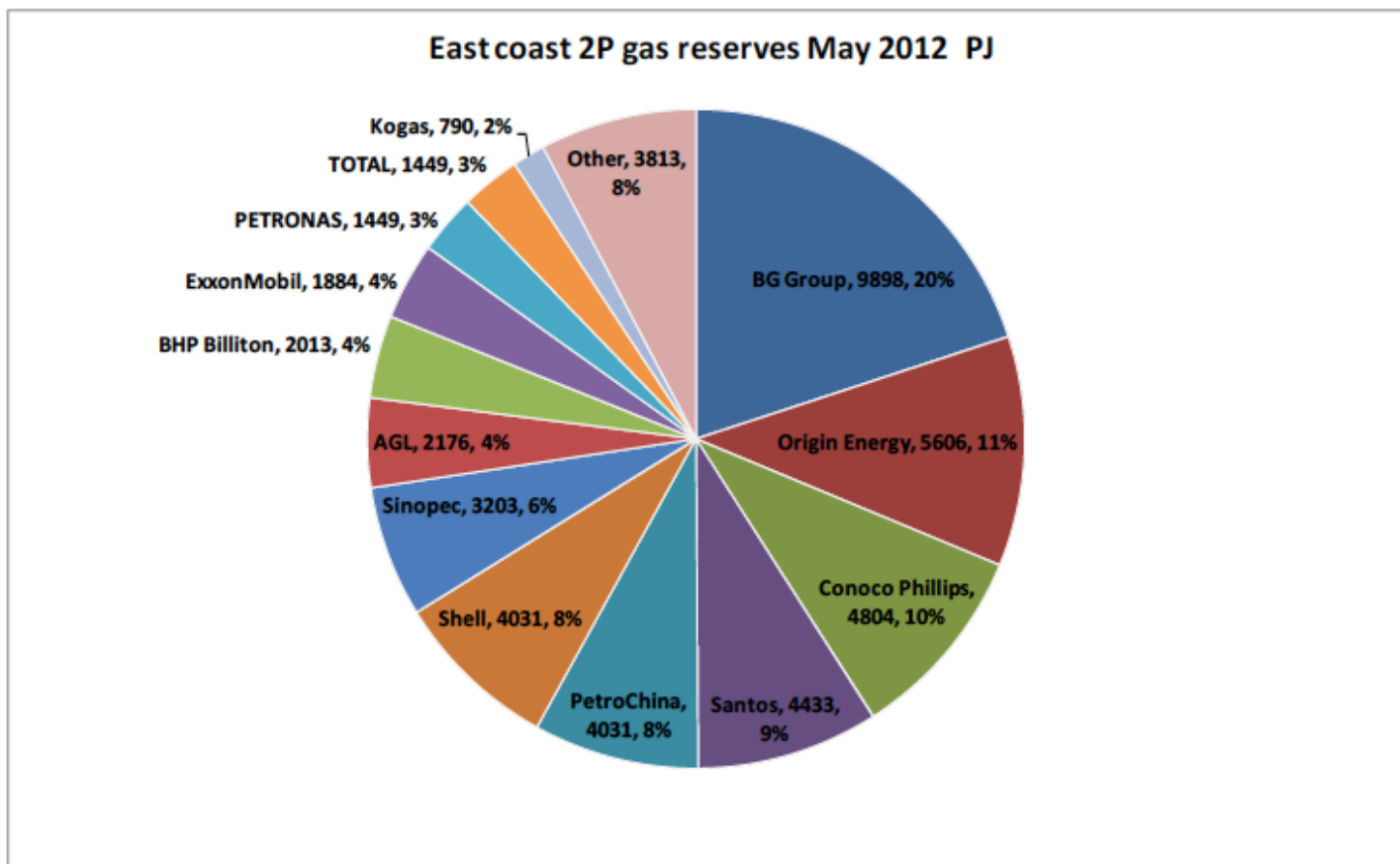
What about royalties?

Peak gas royalty revenue QLD



Where do the profits go?

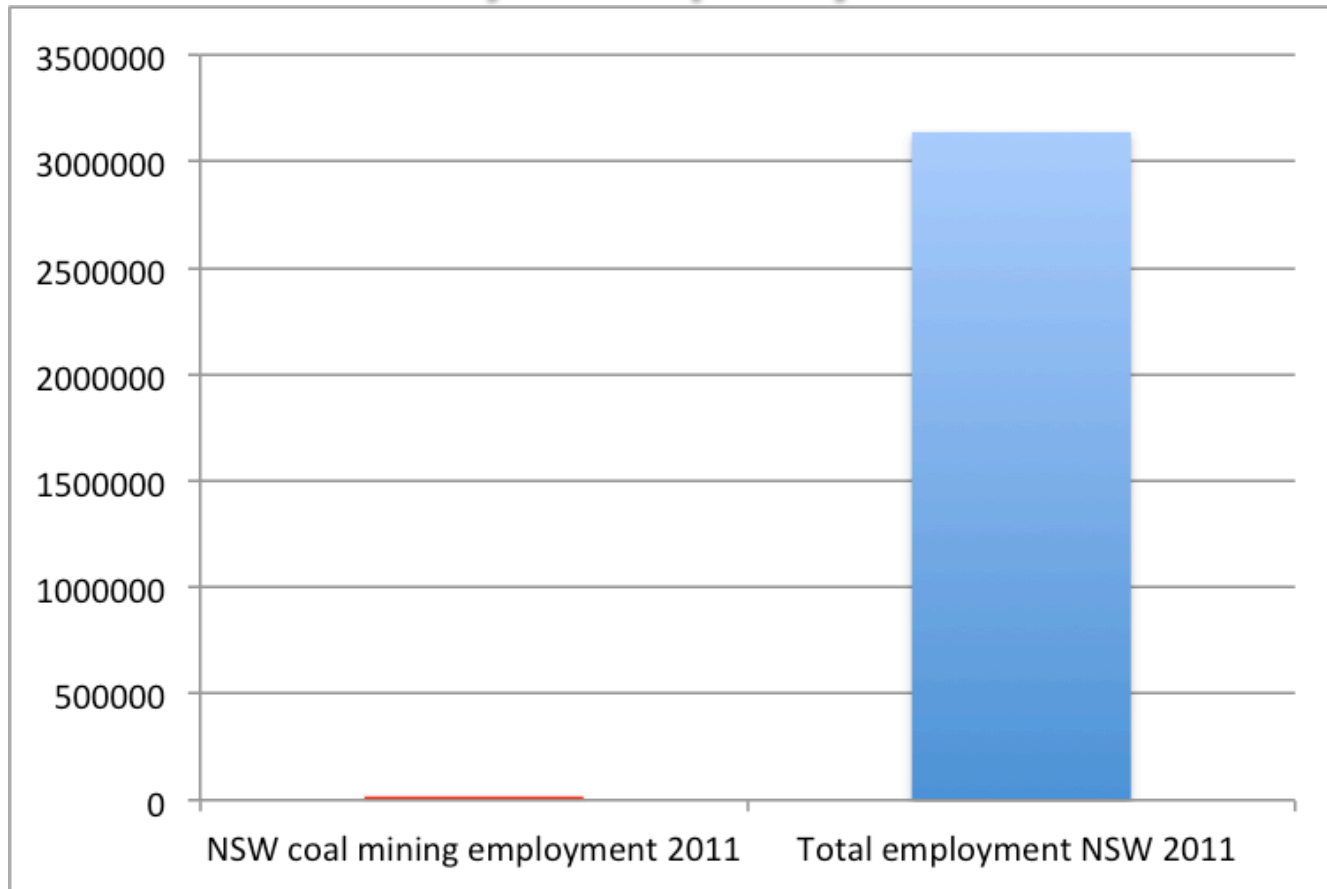
Figure 20 Australian east coast 2P gas reserves, at May 2012



Source: EnergyQuest

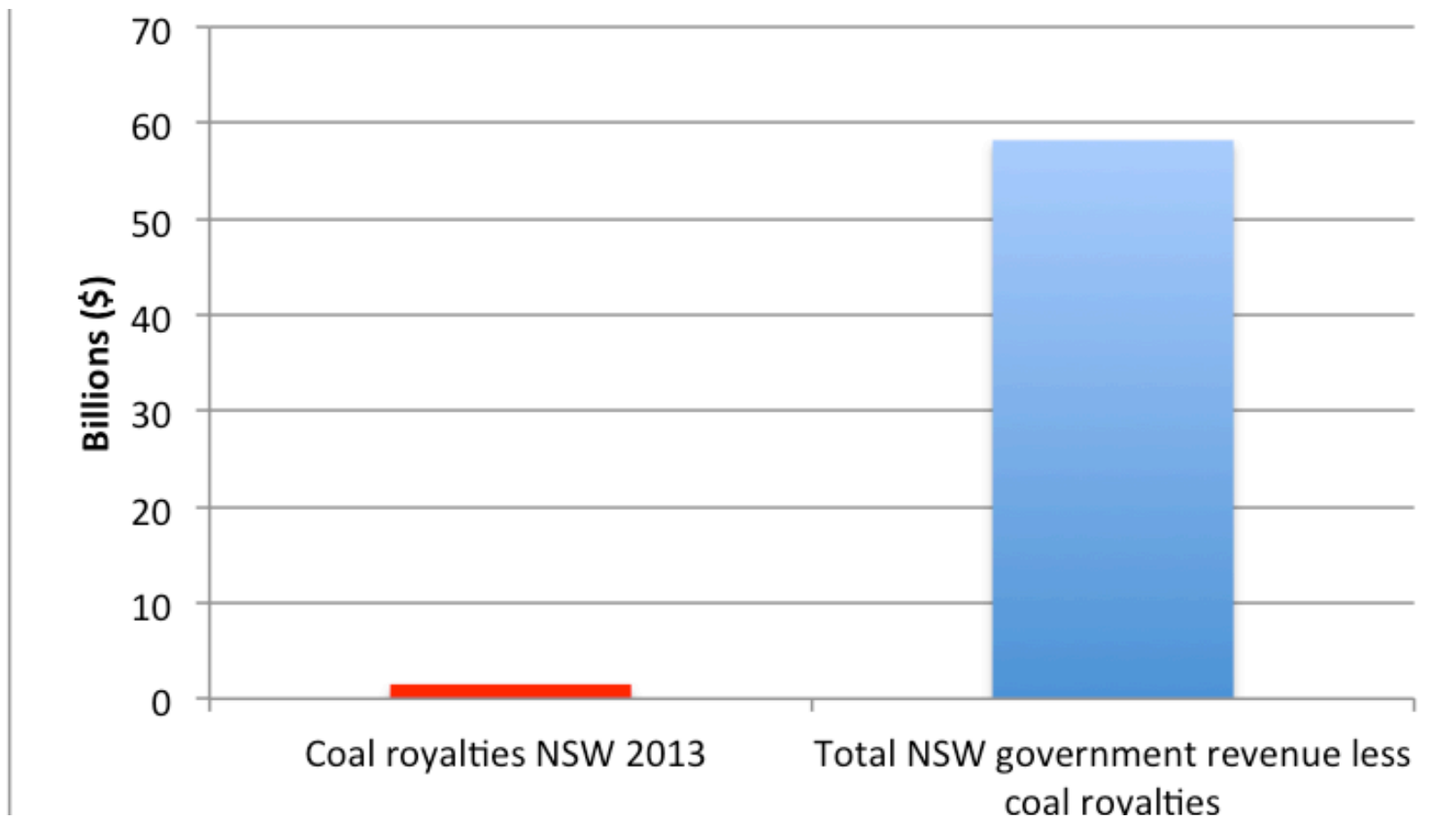
The coal industry

How many people does the coal industry employ in NSW



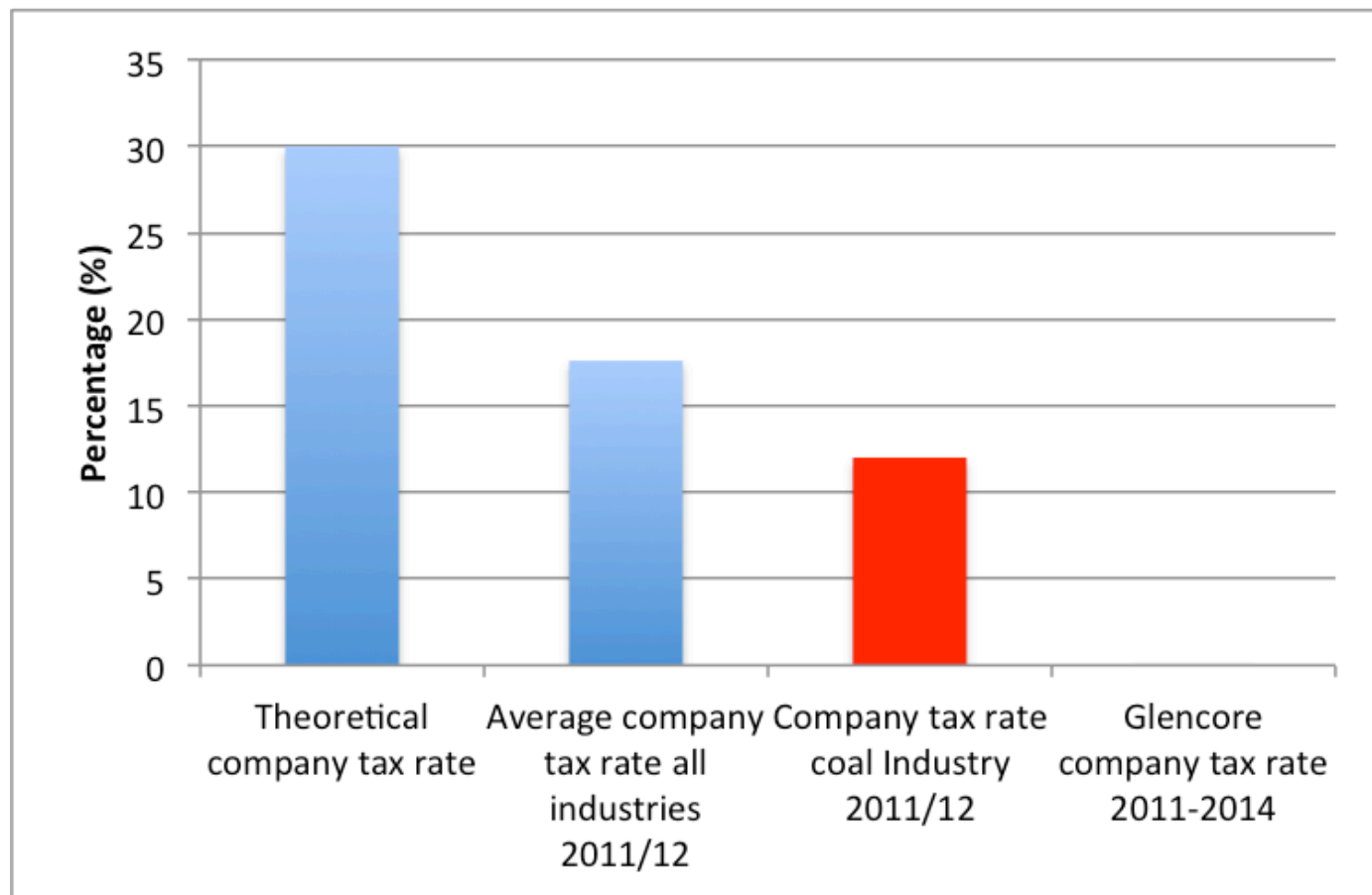
Source: ABS, Australian Coal Association

Do we rely on coal royalties?



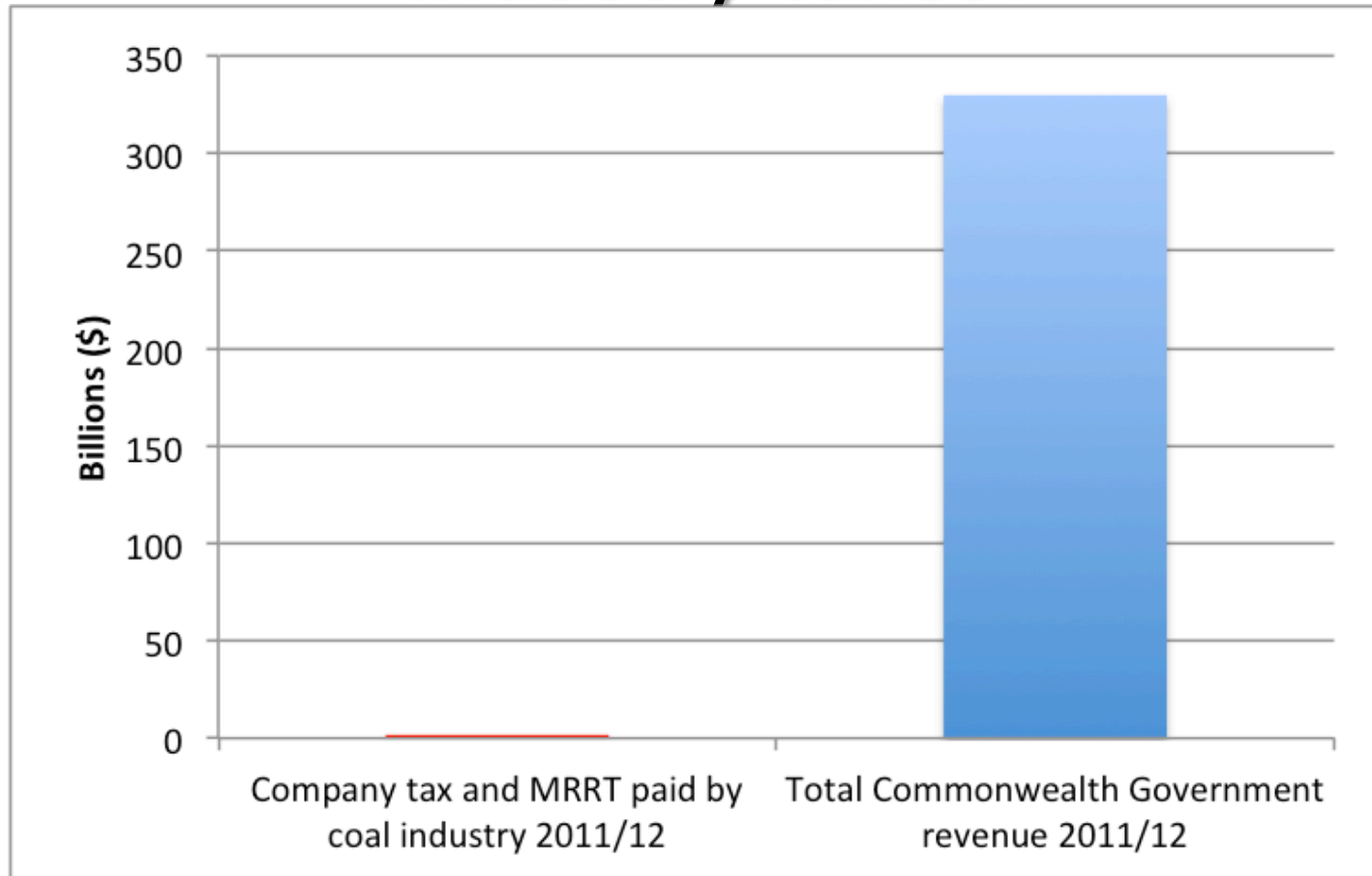
Campbell R (2014) Seeing through the coal dust, coal in the Hunter Valley economy.

What company tax rate does the coal industry pay?



Sources: ATO (2012), ABS (2012), West, M (2014)

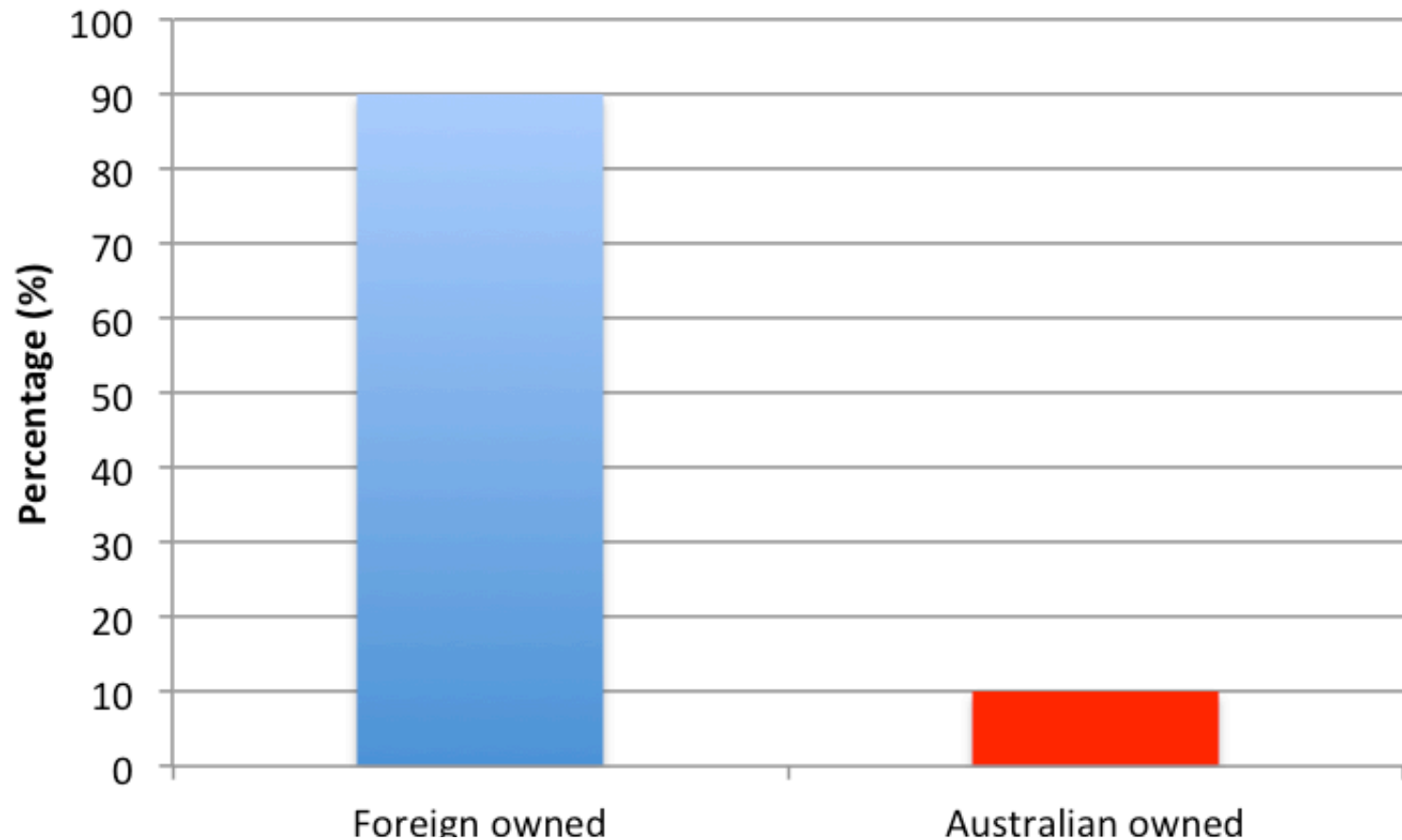
How much does Australia rely on coal industry taxes?



Sources: Commonwealth Budget papers 2011/12, ATO 2012, MRRT revised revenue projections 2011/12.

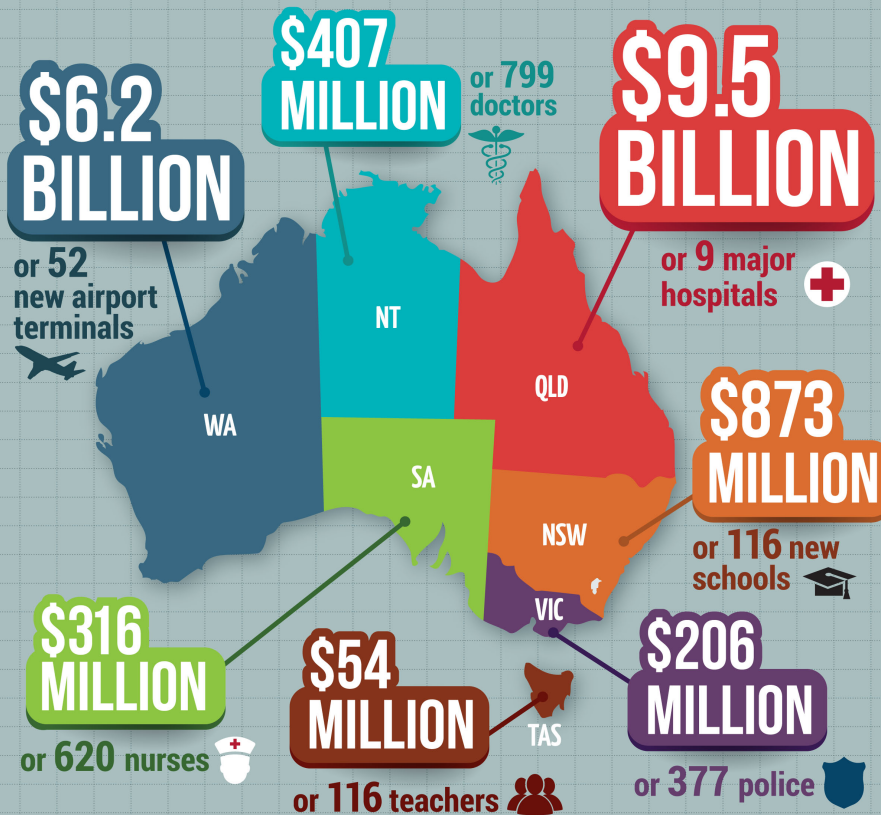
Where do the profits go?

Ownership of NSW coal industry.



Source: Campbell (2014).

WHAT HAVE STATE MINING SUBSIDIES COST YOU?



That's \$18 billion over the past 6 years that could have gone to **hospitals, schools and emergency services.**

References:

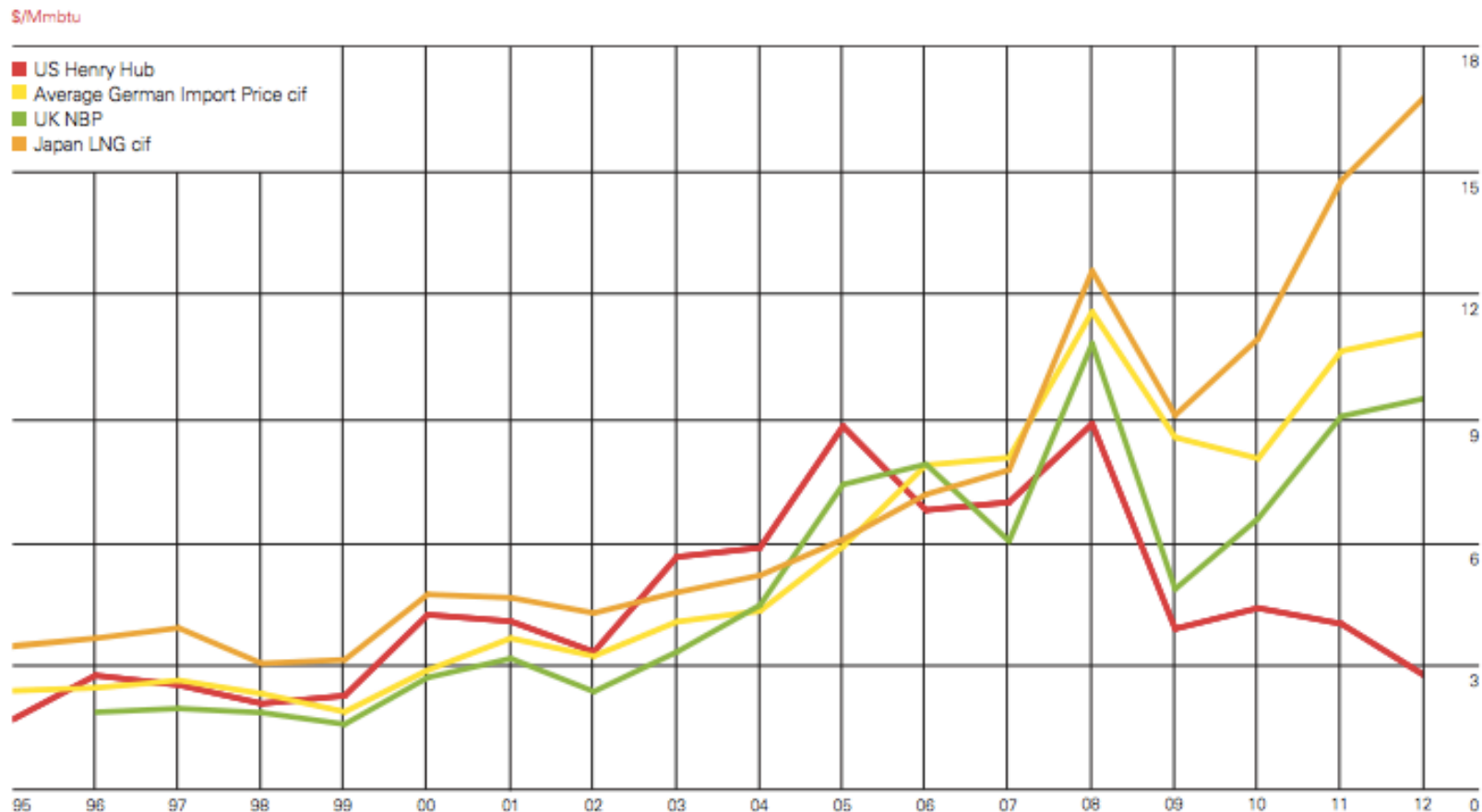
*calculations include subsidies for mineral processing and fossil fuels
*Jobs/infrastructure figures based on industry sources
Peel M, Campbell R and Denniss R (2014) Mining the age of entitlement:
State government assistance to the minerals and fossil fuel sector

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Research that matters.
June 2014

Gas prices

Linking to the Asian market



Source: BP Statistical Review of World Energy Gas Section 2013

Eastern Australia is a single gas market now linked to Asian exports..

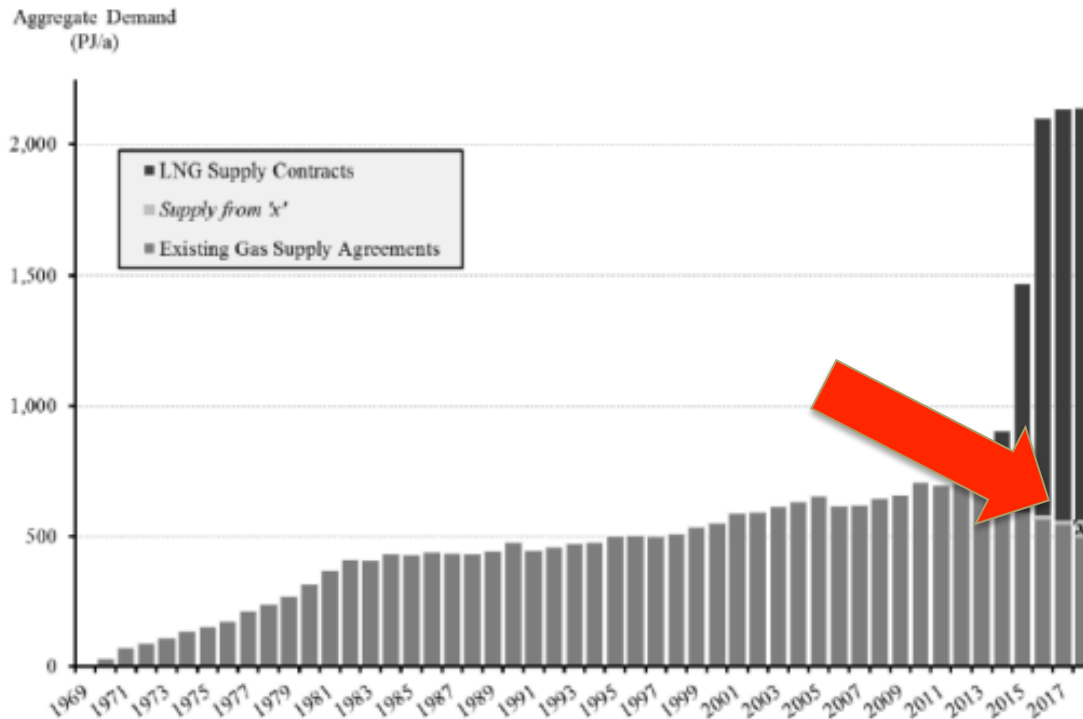
Figure 2-1 — Committed and proposed facilities in Eastern and South Eastern Australia



AGL's own modelling shows any potential NSW gas supply shortage would be miniscule

Research that matters.

Figure 7: Aggregate gas demand vs. aggregate gas supply – 1969-2018^f



Source: AGL 'Solving for 'x' – the NSW Gas Supply Cliff', p8

CSG export driven gas price rises; \$81 billion bonanza for gas industry costs manufacturing \$118 billion- Deloitte 2014

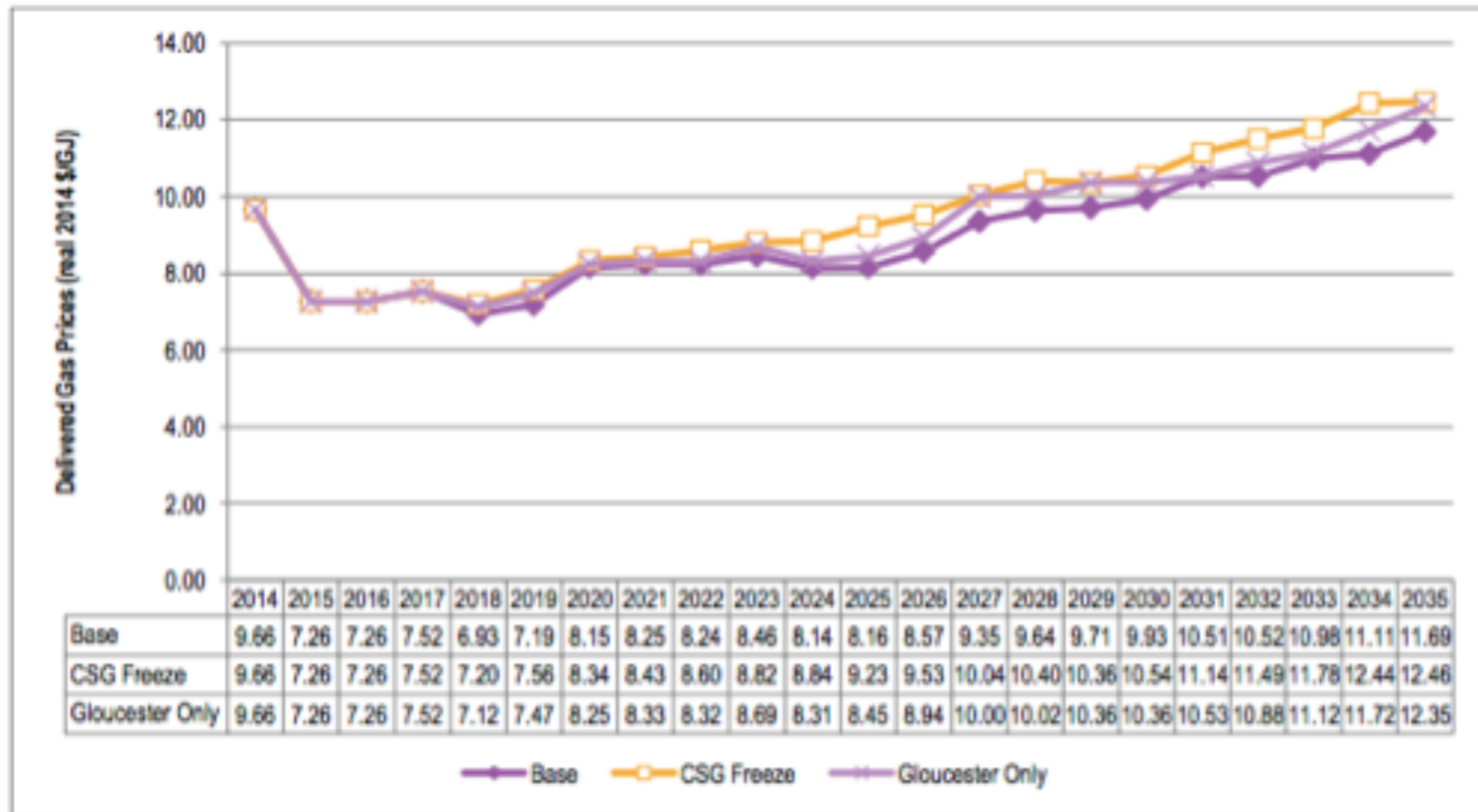
	Value of difference from baseline			% difference			NPV
	2015	2018	2021	2015	2018	2021	Cumulative impact over 2014-2021
IES scenario							
<i>Output (\$ million)</i>							
Manufacturing	-17,937	-15,810	-25,070	-3.07	-2.47	-3.61	-87,701
Gas	7,119	15,448	22,141	38.15	57.37	52.16	69,965
Mining	-6,789	-5,196	-8,773	-3.34	-2.32	-3.59	-30,245
Agriculture	-1,116	-713	-1,304	-1.99	-1.18	-2.01	-4,421
Electricity and Water	-1,277	-1,278	-1,730	-2.19	-1.99	-2.45	-6,812
Construction and Trade	20,077	2,701	12,106	3.11	0.38	1.55	42,644
Transport	-2,226	-1,690	-2,940	-1.61	-1.12	-1.79	-9,856
Commercial & Services	3,296	-558	734	0.28	-0.04	0.05	3,221
SKM scenario							
<i>Output (\$ million)</i>							
Manufacturing	-23,199	-22,259	-30,386	-3.97	-3.48	-4.38	-118,069
Gas	8,922	17,672	24,225	47.81	65.63	57.07	80,746
Mining	-7,226	-6,031	-9,679	-3.55	-2.69	-3.96	-33,804
Agriculture	-1,110	-798	-1,430	-1.98	-1.32	-2.21	-4,705
Electricity and Water	-1,962	-1,989	-2,204	-3.36	-3.09	-3.12	-10,269
Construction and Trade	18,049	2,443	13,265	2.80	0.34	1.69	38,519
Transport	-2,328	-1,988	-3,288	-1.68	-1.31	-2.00	-11,044
Commercial & Services	3,015	-897	649	0.26	-0.07	0.05	1,695

Source: Deloitte Access Economics

Note: The discount rate of 7% was used to calculate the NPV figure.

Even unconstrained NSW CSG mining will have virtually no impact on gas prices

- ACIL Allen 2014



Source ACIL Allen Consulting 2014

CREDIT SUISSE



- *..quite clearly at face value this [GLNG] has been a materially unappealing project,...*
- ***Santos now argues that its aim in GLNG was always as much about raising the domestic gas price, and therefore re-rating large parts of its portfolio outside of GLNG, as it was about the project.***
- *..with a ~0.8 per cent drag on Australian GDP from every \$2GJ rise in the domestic gas price, this view certainly would not have been terribly popular with politicians who approved the project.*

Source: Credit Suisse. (2014) *Santos: the seven year itch* (Vol. 7, p. 5). Equity Research brief dated 11 March 2014.



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October 9, 2013

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