The astonishing gas crisis in Australia

14 September 2022

https://lesechos.fr/idees-debats/editos-analyses/letonnante-crise-du-gaz-en-australie-1787785

Although it is one of the main producers of natural gas and its supplies are not affected by the Russian invasion of Ukraine, Australia could also face a shortage of natural gas next year. The result of too weak regulation of producers, who put the national market in competition with their international customers.

Of all the countries threatened by a gas shortage, Australia is probably the last that would come to mind. And yet, according to a recent report by the Australian Competition Commission (ACCC), there could be a shortfall of around 10% of natural gas supply on the country's east coast, where more than 70% of the population is concentrated.

While a large part of Europe must find alternatives to Russian gas, on which it is very dependent, and seriously consider reducing its consumption, this is not at all the case for Australia, which in this matter is totally self-sufficient. The island-continent, with 148 billion cubic meters of natural gas extracted in 2021, is the seventh largest producer in the world.

World's largest producer of LNG

But it exports three-quarters of it, in particular under long-term contracts, to China, Japan and South Korea, in liquid form (LNG), of which Australia has become in 2021 the world's leading exporter.

Beyond these contractual obligations, gas producers, three players who control more than 90% of the sector (Australia Pacific LNG, Gladstone LNG and Queensland Curtis LNG) should produce an additional 167 petajoules in 2023. But as the ACCC notes, “LNG exporters are increasingly diverting excess production to offshore spot markets, up to 70% of it in recent years.” With LNG prices having never been so high, the ACCC fears that all excess production will be sold entirely abroad next year, which would cause an unprecedented shortage in the domestic market.

Tax on super-profits

To remedy this, the government appears extremely ill-equipped, since the only tool at its disposal, the Australian Gas Security Mechanism (ADGSM), under which producers can be forced to redirect their gas to the market national if a shortage is looming, is "totally inappropriate, ineffective and too slow to implement", said Tim Buckley, director of the think tank Climate Energy Finance. Madeleine King, the Australian Minister for Resources in the new Labor government, has announced her intention to overhaul the way this mechanism works.

Tony Wood, energy specialist from the Grattan Institute, pleads for the establishment of a tax on super-profits. It would be based on the fixing of a reference price, based on market prices before the war in Ukraine, beyond which any sale abroad would be taxed at 100%. “Producers will still be able to earn money on the national market, but at a fair price,” explains the expert.

The price of gas has tripled

Because if the supply of gas to Australians is not threatened by the Russian-Ukrainian conflict, the latter are on the other hand not spared by the rise in prices it has caused. According to a report by the electricity market regulator (AEMO), the price of gas on the east coast has more than tripled in one year, reaching a record high of $28.40 per gigajoule, and that of electricity, more than doubled. This is the result of the vertiginous rise in prices on the international markets, of a particularly cold winter this year in Australia, and finally of a multiplication of breakdowns of coal-fired power stations, which remain the main source of electricity in Australia. Gas, generally used only as an auxiliary fuel, has in recent months been oversold to compensate for the failures of coal-fired power stations.

Faced with this price explosion, only Western Australia was spared. It is also the only State forcing gas producers to dedicate 15% of their production to the local market, a substantial stock which acts as a shield against price volatility on international markets. Some plead for the extension of this mandatory reserve policy on a national scale. Like Tim Buckley, who notes that such a measure “would require a hell of a dose of political courage”. A courage that the Labor government would not have, since it believes that "Madeleine King continues to serve the interests of the fossil fuel industry which she is supposed to regulate, making the Albanese government's climate commitments a big joke".

Ten years of immobility

The latter, which before the elections in May, had assured that Australia would continue to exploit coal beyond 2050, announced last week the opening of maritime zones, a area of nearly 47,000 km^2, for oil exploitation, with the aim of "securing Australia's energy supplies". And too bad if the International Energy Agency and the UN say that to give themselves a chance of achieving the objectives set at COP21, no more new oil or gas drilling should be opened.

At the same time, the Albanese government promises that renewable energies will represent 82% of the energy mix by 2030. But after ten years of immobility in this area, the task is immense. "The chaos of the Conservative coalition's climate and energy policies has posed risks to our sovereignty, by scaring away investments in sufficient non-carbon energy capacities", deplores Tim Buckley. Tony Wood notes that the country is “now forced to make up for lost time, by building huge infrastructures very quickly. It will therefore necessarily be very expensive”.

Nothing for the moment therefore guarantees that Australia will avoid the shortage, or that its energy bill will decrease. On the contrary, according to the Australian Industry Group, which indicates that most of the companies it represents will have to renegotiate their gas contracts over the next 18 months, and that they are already being offered tariffs three to four times higher than last year. A situation which, according to the interprofessional group, illustrates "the urgent need to reform energy policy and restore the stability, affordability and security of national energy markets.”