Written by **Angeline Tan** on December 23, 2022

Australia Limits Oil and Gas Prices for 1 Year, Inciting Backlash From Energy Sector


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Australia has enforced temporary limits on domestic oil and natural gas prices on the pretext of tackling rising prices, but the move has provoked a heated backlash from energy firms that say it would deter investment in new projects.

Although Australia is one of the world's largest suppliers of coal and gas, gas and electricity prices have been rising in the country over the past few months. Such price hikes are due to skyrocketing international prices since the Ukraine-Russia crisis earlier this year, as well as the inability by the federal and state governments to secure ample gas supply for domestic use.

To allegedly address the issue of rising prices, the federal government has put a year-long domestic price limit on gas of AUD$12 a gigajoule. New South Wales (NSW) and Queensland, the two largest coal-producing states, will restrict domestic coal prices at AUD$125 a tonne.

These moves are supposed to help Australian households save about AUD$230 a year.

Prime Minister Anthony Albanese claimed Australia's oil and gas sector was enjoying massive windfall profits due to the rise in prices due to the war in Ukraine. He pointed out that other countries, including the United Kingdom, had unveiled even stronger interventions to cap prices.

"We have chosen a modest intervention," he told reporters.

"This is an industry that will continue to benefit from the quite extraordinary prices on the global market, which are resulting in extraordinary profit levels and extraordinary bonuses to executives."

New South Wales (NSW), the most populous state, on Wednesday convened a special sitting of Parliament to pass legislation on the price limits.

NSW Premier Dominic Perrottet, who leads the state's ruling Liberal-National Coalition, admitted that the caps were "extraordinary" measures, but further claimed that they were required to help families and businesses.

Australia's energy firms have voiced their anger at the new price caps, saying they will deter investment in the sector and reduce the development of new projects, thus decreasing supply and increasing prices.

Based on the International Energy Agency, Australia is the world's largest exporter of liquid natural gas (LNG), with Qatar following suit. Moreover, Australia is the second-largest exporter of coal, behind Indonesia.

Kevin Gallagher, chief executive of Australian oil and gas firm Santos, characterized the new price limits as a “Soviet-style” effort in nationalization.

“Because of its actions today, this winter or the one after, the federal government will have to decide between rationing gas and breaking LNG export contracts,” Gallagher said in an email.

Woodside Energy CEO Meg O’Neill, whose firm accounts for five percent of the global LNG supply, said the price controls would “drive supply out of the market and create potential for shortages.” O’Neill contended that the government should rather offer incentives to fund exploration and new projects to raise overall supplies.

Yet Albanese has maintained his stance, incurring serious political risks as a consequence. For instance, the resources sector has now supposedly pledged to conduct a AUD$20 million advertising campaign to protest Albanese’s price caps.

A previous decision by the ruling socialist-style Labor party in 2010 to enforce a tax on the mining sector — mainly targeting iron-ore firms — provoked a successful AUD$21 million advertising campaign protesting the move. The campaign cautioned against prevalent job losses and has been regarded as a cause in Labor’s move to oust Kevin Rudd as prime minister.

However, most observers think that Albanese will prevail, partially because he has been supported by some coalition MPs, including those in the NSW government.

Business commentator Ian Verrender observed that the resources sector seemed to be fighting a “losing battle.” He said price caps were highly unlikely to deter energy investment in Australia, which is a secure, reliable source of commodities.

“Maybe the difference this time is that, unlike iron ore, everyone uses energy and everyone is affected,” he wrote on the ABC News website. “Or maybe the threats of going elsewhere ring hollow.”

Earlier this month, Australia’s Parliament passed legislation setting a price cap on natural gas for one year and providing AUD$1.5 billion in relief for households and small businesses hit by rising energy costs.

The government won support from the Greens party to pass the legislation, which met with strong protests from the gas industry but was backed by manufacturers and the Australian Workers’ Union, after pledging to offer funding in its next budget to aid low-income households switch from gas to electricity.

New wholesale gas sales by east coast producers will fall under the price cap. At AUD$12 per gigajoule (GJ), it is less than half the average short-term price of AUD$26 per GJ in the third quarter, data from research group EnergyQuest indicated.

The Australian Workers’ Union, which had pushed for the legislation, praised the new law and accused gas exporters of exaggerating the negative consequences.

“The Albanese Government and the crossbenchers are to be commended for seeing through the hyperbolic nonsense of the exporters and legislating in the national interest,” Daniel Walton, the union’s national secretary, said in a statement after the bill passed.

Mining billionaire Andrew Forrest’s private firm Squadron Energy, which is constructing an LNG import terminal, asked the government to mandate Queensland gas producers to make LNG available for the domestic market at “reasonable prices.”

"This means that reasonably priced LNG can be shipped directly from Queensland into the East Coast Gas Network for consumers and business to buy," Squadron CEO Eva Hanly said in a statement.

Besides limiting gas prices, the government lined up the states of New South Wales and Queensland to limit the price of coal sold to power plants at AUD$125 per tonne.

Australia's gas industry lobby group recently asked for urgent talks with Albanese after learning that the government's plan to limit gas prices entails long-term measures to limit profit margins.

The head of the Australian Petroleum Production and Exploration Association (APPEA), whose members include global producers such as Exxon Mobil Corp and Shell, said she wrote to Albanese.

She cautioned that the government's proposed package would undermine investment, reduce new supply, and drive up gas prices.

"APPEA seeks an urgent meeting with Prime Minister Albanese so we can address the serious concerns we have over his proposed dismantling of the gas market and Australia's reputation as an open, market-based economy," APPEA Chief Executive Samantha McCulloch said in a statement on Sunday.

The package to reduce energy bills entails a move to coerce gas producers to ink sales contracts based on their production cost as well as an agreed profit margin following the expiry of the one-year price cap.

"The powers provided through the bill are extraordinary, providing for the Government to control the entirety of the market and intervene in an essentially unlimited way," McCulloch said.

Albanese's office was not immediately available for comment, but Energy Minister Chris Bowen on Sunday said, "I don't find the complaints from APPEA convincing in the slightest."

"This is Australian gas, under Australian soil and Australians should pay a fair price for that, but they shouldn't be paying a war-time price … leading to very high profits for a few companies and endangering industries right around the country," Bowen told Sky News Australia.

Shadow Trade and Tourism Minister Kevin Hogan begged to differ, saying that Labor imposing "Soviet" like regulations on the gas industry is placing AUD$32 billion worth of investment at risk.

"If that investment is pulled back, I mean our lights will go out, and certainly the power bills are going up anyway and they'll go up even higher," Hogan told Sky News Australia.

"I think what Labor did last week was very dangerous."

Energy economist Alan Moran says AUD$500 billion to transition to clean energy is a total "furphy."

"It will cost a lot more than that, something like $6 trillion," Moran told Sky News host James Morrow.