Incitec Pivot Limited

INNOVATION ON THE GROUND

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Ms Lucy Manderson
Committee Secretary
Economics and Governance Committee
Parliament House
2A George Street
Brisbane Qld 4000

By email: egc@parliament.qld.gov.au

Dear Ms Manderson

Incitec Pivot Limited (IPL) is broadly supportive of the Queensland Government's review of the design of Queensland's petroleum royalty regime and the subsequent introduction of the *Royalty Legislation Amendment Bill 2020*.

IPL is an Australian business, servicing the nation's essential agriculture and resources sectors. As the largest manufacturer and distributor of fertilisers in Australia, farmers rely on IPL's products and services to plant and grow crops that feed the nation and provide valuable export food commodities. Dyno Nobel is also Australia's second largest manufacturer and distributor of explosives products and services, which are critical for the resource and civil construction sectors.

In Queensland, IPL operates:

- Two sites on the Brisbane River. The Gibson Island Fertilisers and Industrial Chemical Plant (including a product distribution centre) and the Pinkenba Product Distribution Centre. These sites employ 547 staff and contractors.
- A world scale Sulphuric Acid Plant in the City of Mount Isa that employs 55 staff and contractors.
- The Phosphate Hill mine and manufacturing site in the Cloncurry Shire that produces ammonium phosphate fertilisers for the agricultural sector. That site employs 490 staff and contractors.
- The Dyno Nobel Ammonium Nitrate Plant in the Isaac Regional Council, that employs 170 staff and contractors.
- The Helidon Detonator Assembly Plant in the Lockyer Valley Regional Council, that employs 103 staff and contractors.
- Four smaller sites in Cairns, Mackay and two sites in the City of Townsville, that employ more than 50 individuals across their combined footprint.

Each of these sites are either dependent on natural gas as their primary feedstock or rely on products derived from natural gas as an intrinsic element of the supply chain they service.

As Australia's largest commercial gas user, IPL has seen the competitive advantage of manufacturing in Queensland eroded by developments in the gas market over the last decade. These have included:

- **Supply contract terms** - It has for several years been impossible to secure 10 to 20-year supply deals at all, let alone long-term contracts that are 'anywhere near' a competitive price. Further, deals have increasingly been offered on a 100% take or pay basis. This structure shifts the onus of re-marketing gas that is surplus to requirements to manufacturers, for whom the trading of gas sits outside their primary area of expertise.
- **Increased cost of gas** - Long term contract offers have not reflected LNG netback, something acknowledged by the ACCC.
- **Unrealistic forward assumptions in contract offers** - Contract offers have been based on an unrealistically high assumptions on forward LNG pricing.

Australia's gas-reliant manufacturing businesses are struggling to remain viable and competitive with structurally high gas prices, with many shutting down or offshoring jobs to lower domestic gas cost countries.

IPL recognises that the Queensland Government has been a particularly strong advocate in recent years of domestic manufacturing and has implemented a Domestic Gas Tender Program to support gas supply to the domestic users. Notwithstanding, the corrective impact on the market to date has been minimal, if at all, and more needs to be done to ensure the sustainable future of manufacturing.

As part of a joint venture with Central Petroleum, IPL was awarded a gas tenement in the Surat Basin to develop the gas for domestic production. To the extent that gas can be produced from this tenement, the intent is that this gas will be directed towards IPL's Queensland manufacturing operations.

IPL and Central have made positive progress, but an individual gas exploration project is time consuming and challenging in isolation without scaled infrastructure. This project has highlighted the difficulty of accessing required infrastructure for a single tenement, located in a mature gas producing region dominated by world-scale LNG producers.

As part of the Domestic Gas Tender Program, IPL is seeking the Queensland Government's support to further incentivise gas producers to provide affordable gas to domestic industrial customers and households that support the state economy, jobs, and consumers on east coast of Australia.

In direct response to the contents of the *Royalty Legislation Amendment Bill 2020*, IPL welcomes the move to establish four different royalty rates where the applicable rate will depend on the petroleum type, with four classes of petroleum being established.

Building on this legislative change, IPL would like to see the Committee give consideration to:

1. The proposed regulation taking into account the critical need for domestic natural gas supply security and affordability that should not come at the expense of proposed export gas. Accordingly, it is proposed to
    a. increase royalties on LNG/gas sent to export; and
    b. implement a 0% royalty on gas sold for domestic end use.

2. Implement a collaboration mechanism with the Australian Competition and Consumer Commission (ACCC) to ensure any increases in royalties are not permitted to be passed on to Australian domestic use consumers. ACCC involvement would ensure:
    a. existing price monitoring activities contribute to this process; and
    b. cross jurisdictional activities do not mask inappropriate behaviours.

IPL also encourages the Committee to investigate the viability of using excess export royalties to establish a rebate scheme for domestic users, thereby providing an allowance for domestic users, particularly in manufacturing, to receive a fair and competitive price for natural gas.

To the extent you have any questions related to the proposal, please do not hesitate to contact us.

Yours sincerely,

Seth Hobby
Executive Commercial Officer