

Chapter 4

The committee's view

4.1 The committee has heard contradictory evidence on the arguments for maintaining joint selling arrangements for the North West Shelf Joint Venture. On the one hand there is the argument that these arrangements have set a price floor for gas and have stunted the competitive development of the Western Australian gas market. On the other is the argument that the market is still developing and that the substantial capital investment for these large scale projects would not be feasible under separate selling arrangements. The evidence presented to the inquiry was not substantive enough for the committee to make a recommendation at this point in time.

The need for joint selling

4.2 As noted in chapter 2, the Venture's Chief Executive Officer argued that joint selling is necessary because the risks need to be equally shared across the whole supply chain and the initial investment has to be based on certainty that the product will find a market.¹

4.3 However if the Venture develops its products on the basis of satisfying existing aggregate market demand in the local market, the individual companies—particularly if they are competitive—should be able to sell their share. Indeed, any concern that separately marketed gas would not be able to find a market seems most peculiar in light of Ms Howell's comments that there is more demand than supply in the local market. She argued that this reflects low supply of gas, which surely makes it more likely that a separately sold product will find a market.² Low supply of gas and the five-fold increase in gas prices in the past two years, may diminish the Venture's argument that the transition from joint to separate marketing arrangements would be costly.

The ACCC's investigation

4.4 In her evidence to the committee, Ms Howell claimed that the Australian Competition and Consumer Commission's current inquiry was 'a review...instigated by the North West Shelf Venture participants when they revoked the authorisation'.³ By contrast the DomGas Alliance characterised it as a consideration by the ACCC's enforcement division in response to a submission DomGas made to the ACCC.⁴ The

1 Ms Eva Howell, *Proof Committee Hansard*, 11 November 2008, p. 5.

2 Ms Eva Howell, *Proof Committee Hansard*, 11 November 2008, p. 6.

3 Ms Eva Howell, *Proof Committee Hansard*, 11 November 2008, p.4.

4 Mr Stuart Hohnen, *Proof Committee Hansard*, 11 November 2008, p. 29.

ACCC wrote in a letter to the committee: 'the ACCC is currently conducting an investigation into certain aspects of the joint marketing arrangements on the North West Shelf. The investigation is still in a preliminary stage, and is currently awaiting advice from external consultants'.⁵

The need to liberalise gas markets

4.4 The committee also emphasises the broader importance of full liberalisation of gas markets. The committee heard the importance of consumers being able to choose their suppliers; that access to the pipeline is transparent and non discriminatory; and that there are a variety of producers marketing independently are crucial for a true competitive market. While progress made been made in the Western Australian gas market towards the first two of these preconditions, the third has not yet been attained.

4.5 The committee believes it is difficult to make any recommendations prior to the release of the ACCC's investigation and report.

Senator Annette Hurley

Chair

5 Brian Cassidy, Australian Competition and Consumer Commission, *Correspondence*, 10 November 2008.