



CHAMBER OF COMMERCE AND INDUSTRY
WESTERN AUSTRALIA

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The Secretary
Senate Standing Committee on Economics
PO Box 6100
Parliament House
CANBERRA ACT 2600

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Dear Secretary

Inquiry into Matters Relating to the Gas Explosion at Varanus Island

The Chamber of Commerce and Industry of Western Australia (CCI) welcomes the opportunity to provide a submission to the Senate Standing Committee on Economics regarding its inquiry into matters relating to the gas explosion at Varanus Island, Western Australia as per its Terms of Reference.

About CCI

CCI is the leading business association in Western Australia. It is the second largest organisation of its kind in Australia with a membership of over 5,700 organisations in all sectors including manufacturing, resources, agriculture, transport, communications, retailing, hospitality, building and construction, community services and finance.

Most members are private sector businesses but CCI also represents firms in the not-for-profit and government sectors. About 80 percent of members are small businesses, and members are located in all geographical regions of WA. Some 100 business associations are affiliated with CCI, expanding the organisation's representative coverage to more than 10,000 enterprises.

CCI's Role

Many of CCI's member organisations have been directly impacted by the natural gas shortage resulting from the Varanus Island gas facility explosion.

CCI has played a key role in assisting and representing industry in the wake of the crisis and has worked collaboratively with the State Government as a member of the Premier's Gas Supply Coordination Committee, which provided the opportunity to advise Government on the circumstances facing business following the incident.

The WA business community has adopted a co-operative approach in responding to the natural gas supply shortage which CCI believes has been successful in mitigating potential damage to WA industry. CCI strongly endorsed Government's decision not to intervene in gas production and delivery arrangements by invoking emergency legislative powers, instead allowing the market to resolve such issues.

Broad Economic Impact

CCI considers that the Varanus Island gas explosion and resultant natural gas supply shortage represents one of the most significant challenges to confront WA business and the State economy for many years.

A CCI survey of WA industry estimated the gas crisis has cost business and industry \$2.4 billion in lost turnover during June and July alone. This represents a significant negative impact upon the State economy, and it is likely that the flow-on effects will continue to impact the economy for some time.

Indeed, the Reserve Bank of Australia has stated that some of the downward revision in its forecasts of economic growth by one quarter of one percent can be attributed to the Varanus Island gas disruption.

CCI maintains that natural gas supplies will remain tight until the end of 2008 when full production at Varanus Island is anticipated to resume. While this will enable supply to be resumed, we anticipate that flow-through impacts associated with the crisis will continue to be felt through the economy for some time.

Immediate Business Impact

The CCI survey also found that nearly half of all respondents have been affected in some way by the natural gas outage. Some 16.6 percent of respondents indicated that their business had been directly affected by the outage, while a further 33.2 percent had been indirectly affected. Of those businesses impacted by the gas outage, their production declined by an average 30.6 percent.

Businesses operating in the manufacturing industry were hit hardest by the supply shortfall, with nearly 62 percent of manufacturing respondents affected in some way by the natural gas outage. Over 27 percent of respondents from the manufacturing sector had been directly affected, while a further 34.5 percent reported to be indirectly affected by the gas crisis. Of affected manufacturing businesses, production declined by an average of 45 percent.

CCI found that the State's chemical and petroleum processing activities have also been adversely affected, with several plants being forced to suspend production.

The gas outage has also had a negative effect on businesses operating in the mining sector. Almost 19 percent of mining sector respondents have been directly affected by the gas crisis, while a further 41 percent have been indirectly affected. On average, production among these affected businesses has declined by 26 percent. At least 12 mines in Western Australia have declared that the gas outage has impacted upon their production targets.

Industry Response

CCI understands that a range of response measures were adopted by businesses affected by the gas crisis. The most common strategy was to reduce employee working hours, which was adopted by 28 percent of businesses affected by the gas outage. Redeployment was the next most common option, being used by 18 percent of respondents.

Businesses also relied upon staff using accrued leave entitlements with some 14.7 percent of respondents affected by the gas crisis relying on staff voluntarily taking leave, while a further 12 percent compelled staff to use leave entitlements. In addition, around 10 percent of respondents that have been affected by the gas outage have stood down staff, while a further two percent have made redundancies.

The CCI survey also assessed respondents' ability to mitigate the gas crisis by alternating between energy sources or reducing energy consumption. Overall, respondents were generally unable to change between energy sources or switch production times in order to mitigate the impact of the gas shortage.

Respondents' ability to reduce their consumption of energy was also very limited, with 62 percent of respondents unable to cut consumption.

Similarly, the majority of respondents were unable to shift their production to non-peak energy demand periods.

Long-Term Business Impact

While the impact of the gas crisis has been felt immediately by some businesses, CCI believes that the long-term effects are also likely to be far reaching. The impact of the gas crisis is unlikely to be contained to businesses that have been directly affected by the reduced energy supply. Secondary effects caused by disruption to the supply chain are also likely to impact on the State's economy.

CCI believes that industry sectors including construction, hospitality, health and community services, and retail trade are likely to be impacted by the natural gas supply disruption.

For example, CCI understands that the hospitality industry was negatively impacted by the shutdown of laundry services providers, which in turn forced hoteliers to downgrade their service offering. Another example relates to the flow-on effects which may emerge within the building sector. Providers of building materials including powder coated window frames and door frames were forced to decrease production because of the lack of energy inputs. The resultant materials shortage may create delays and cost overruns in the building and construction sector.

CCI believes that businesses from industry sectors including property and business services, wholesale trade, and transport and storage, may be adversely affected as their businesses are heavily reliant on the State's construction sector. We further understand that employment service providers have suffered a downturn in business, as clients directly affected by the natural gas shortage deferred new employee placements.

Government Response and Review

The Varanus Island gas incident saw industry respond rapidly and effectively, working collaboratively to ensure that, as best as possible, business continuity was maintained and that economic and employment impacts were minimised.

CCI understands that the State Government is awaiting the results of the National Offshore Petroleum Safety Authority report due in September 2008 before considering further investigation. CCI considers that a review of the incident is critical to assess and critique the Government's response.

CCI strongly recommends that the State Government should undertake a review of the incident, including an assessment of the performance of Government's management response to the crisis.

State Energy Strategy

The extent to which Western Australia's natural gas supply was reduced through a disruption to one processing facility highlights the State's lack of diversity in energy supply, and emphasises the vulnerability of the system.

CCI strongly recommends that the State Government should develop an overarching State Energy Strategy that provides policy direction on the management and development of the State's energy resources, energy production, security and supply.

Conclusion

While the Varanus Island incident has resulted in severe negative consequences for WA industry and the economy, CCI believes that Government should learn from the incident to ensure that any future crisis management incorporates the lessons learned.

CCI's Senior Adviser, Industry Policy, Andrew Canion is available to provide further information and can be contacted on (08) 9365 7688 or email andrew.canion@cciwa.com.

Yours sincerely,



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