

Food Industry Association WA Inc

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

**INQUIRY INTO MATTERS RELATING TO THE GAS EXPLOSION AT VARANUS ISLAND,
WESTERN AUSTRALIA**

To whom it may concern

The Food Industry Association of WA Inc (FIA) submits this response to **Senate Standing Committee on Economics - Inquiry into Matters Relating to the Gas Explosion at Varanus Island, Western Australia** on behalf of its members, the general community and on behalf of the entire Western Australian Food and beverage industry. In particular we make representation on behalf of businesses that were either Alinta customers at the time of the incident and were directly impacted, or were customers of those businesses and were indirectly affected.

The FIA is a member based, not for profit, industry development organisation representing the interests of its members and the Western Australian food and beverage industry as a whole. Since its establishment in May 2007, the FIA's active member base represents approximately 75% of the total WA industry.

The FIA has been formed by some of Western Australia's food and beverage industry leaders, and most active entrepreneurs, with a vision for this peak industry body to assist the Western Australian industry to become more united in taking up the future challenges faced in a national and global market. It is also the charter of the Association is to assist in shaping a business environment that encourages the food and beverage industry to grow and to innovate to ensure strong economic profitability and sustainability in Western Australia.

The FIA represents businesses and organisations that are engaged in the industry of processing food or beverages in Western Australia including the supply of good and services to the industry and to the general community.

In particular the Association aims to:

- be a united representative voice for the food and beverage processing industry in Western Australia;

- facilitate and encourage market development and the export of food and beverage products from Western Australia;
- promote and facilitate innovation and value adding to Western Australian primary produce; and
- promote the importance of the food and beverage industries in Western Australia and ensure appropriate government support.

The FIA has actively engaged with the State Government and organisations such as the WA Chamber of Commerce and Industry, which was invited by the Premier of Western Australia to provide a useful link between the industry and the State Government, including liaising with Industry Associations.

The FIA has assisted WA businesses impacted by the gas explosion at Varanus Island with information, contacts and support through:

- phone support including technical details about alternative gas supplies;
- publishing up-to-date information on the FIA website;
- providing relevant information about current direct, and likely short term and long term impacts to the Department of Agriculture and Food, and the Minister for Agriculture and Food;
- coordinated industry attendance at an information briefing in conjunction with the Department of Agriculture and Food.
- liaising with Alinta and driving the formation of an Alinta Working Group for affected businesses to discuss priority of gas supply;
- providing feedback to the State Government on the planned Gas Bulletin Board;
- offering input to the State Government, particularly the Premier's office, on solutions to overcome the crisis situation and to implement a strategy to avoid such incidents in the future which elicited no response; and
- A request to the Premier's office to meet with CEO's and GM's of affected businesses to discuss and provide input on solutions to overcome the crisis and assist in the development of strategies to avoid future incidences. The FIA were advised, without justification, that the Premier was unavailable for this meeting.

The FIA welcomes and supports the Inquiry into Matters Relating to the Gas Explosion at Varanus Island Western Australia as it is the FIA's view that the situation was poorly handled by the WA State Government at the time. This includes the absence of a workable, outcome oriented crisis/incident management plan and a lack of meaningful and relevant incident communication. This was based on the State Government's refusal to take any responsibility for the incident or the subsequent impact on WA businesses. In addition, the State Government had no knowledge on the extent of the impact of this or any similar incidences. For example, there is an apparent lack of risk simulation tools that translate into preventative measures and/or an accurate understanding of the impact. As previously mentioned, the FIA, as representative of Food and Beverage Industry leaders, approached the Premier's Office to offer assistance in the development of appropriate management plans and strategies to avoid duplication from future incidences with no response. This offer was refused.

The FIA is of the opinion that the State Government is at all times responsible for the reliable and economic provision of essential utilities, including natural gas, to business and the general community. This includes ensuring the secure supply of utilities to essential suppliers and services, such as the food industry. The State Government controls the supply of essential utilities through the issue of licenses to private companies, and to its own businesses, to deliver reliable utilities. The responsibility of the State Government extends to having appropriate risk management and contingency plans in place to ensure secure reliability of supply is maintained at all times. Licenses and relevant agreements should bind the parties to satisfy certain minimum requirements, conditions and standards that minimise

the risk of loss of a larger portion of supply; providing the highest level of security and reliability of supply at all times. All aspects of the supply chain should be monitored and assessed by the State Government agencies responsible, and any concerns arising should be counteracted, rather than neglected or ignored. In conclusion, and contrary to the State Government's position, the FIA believes the WA State Government has ultimate responsibility for this incident including the mismanagement of the State Government's response to, and actions resulting, and thus the subsequent impacts on private businesses.

The more detailed responses to the matters referred by the Senate are outlined below:

a) the economic impact of the Western Australian gas crisis, including but not limited to:

(i) the extent of losses faced by business and industry failing to meet production targets due to the lack of gas supplies,

In the absence of extensive conclusive and detailed quantifiable surveys, the extent of losses faced by business and industry as a result of the WA gas crisis can only be estimated. The WA food and beverage industry is highly dependent on natural gas through the nature of the industry, where natural gas is the most economic way for heating, cooking, frying, sanitizing, homogenizing of food and beverage products. It is also required that continuous manufacturing facilities are requiring continuous gas to maintain minimum food safety standards.

A large scale survey was undertaken by the WACCI in the early stage of the gas crisis which found that more than 50% of all businesses have been affected, and that the economic impact of this crisis is estimated to be greater than a similar incident in Victoria after the Longford gas explosion. In Victoria business cash flow was estimated to have reduced by \$4.3 billion after only three weeks. Considering that WA's dependence on natural gas is much higher the impact can be assumed to be greater. In WA it is estimated that 40 % of the WA food and beverage industry was, and continues to be, directly and indirectly impacted. For these businesses, the loss of access to natural gas, or the loss of access to other downstream supplies dependent on natural gas supply, has significantly impacted on business bottom line performance, through increased costs, loss of production and loss of contracts. However, to draw quantifiable conclusions a State and industry wide survey needs to be undertaken and funded by the State Government.

Reportedly, WA businesses have:

- either reduced activity by 30-40% over an extended period, or have closed down production completely;
- have undertaken unscheduled maintenance;
- have laid off staff or requested staff to take forced leave; and
- have changed operations to run at off-peak times and weekend shifts due to rotational gas allocation.

Businesses which have reported significant economic impacts include National Foods, Challenge Dairy, Harvey Fresh, PepsiCo International, Coca Cola, Kirin Brewery, Fosters, Planet Sales, CSBP and a range of hospitality and food services business which were all customers of Alinta at the time of the incident and rely heavily on a reliable and consistent gas supply.

Major dairy suppliers National Foods and global operator Fonterra, and other food and beverage businesses, have resorted to unplanned capital investment into new machinery and equipment to allow their production lines to operate on diesel in order to survive.

Harvey Industries, which operates WA's only beef abattoir, were forced to operate at more than 30% reduced production and to completely shut down operations for weeks as a result of the gas crisis, with significant flow on impacts to the WA beef cattle industry.

Major food manufacturer Vesco Foods (formerly Kailis & France) closed for one week, Dorsogna Ltd, which employs more than 300 people, have been operating at 70% production since the crisis, thus impacting on existing supply contracts. Other WA businesses with large national operations have resorted to replacing local inputs with product from the Eastern States thus losing value generation and income for the WA economy. The flow on economic impacts to smaller suppliers of product and services is likely to be exponential.

Air Liquide WA, the states major supplier of liquid CO₂, was unable to provide any CO₂ gas after the gas crisis stopped CSBP's ammonia production, from which CO₂ is refined. Industries dependent on food grade CO₂, required for gas flashing of meat and other prepared packed food and beverage products such as carbonated drinks and for , have similarly been impacted.

For example, Linley Valley Pork (LVP) is part of the Meat and Livestock Division of Craig Mostyn Group, the diversified food, agribusiness and logistics company which serves companies and suppliers in more than 60 countries. LVP slaughter and process approximately 550,000 pigs per year, representing 98% of the WA pig slaughter. In addition to kill services, LVP supplies chilled pork carcasses, boned out primal cuts, specialty offal products, value added products to Australian domestic markets, and to Singapore, Hong Kong, China, Thailand, New Zealand and Korea. The impact of long term gas supply interruptions resulting in a significant reduction in production capacity has significant potential to permanently damage major export trading partners.

Two tones of liquid carbon dioxide (CO₂) is required to process 10,500 pigs per week, and is the only option for euthanising the pigs. PPC is still sourcing gas from the Eastern States at a higher price, with \$1000 surcharge on every tone of CO₂. To date, ammonia production has not resumed in WA extending the long term impact of the gas crisis. This relates to a loss of close to \$26,000 to date that cannot be passed on to customers. The incident questioned the reliance of a single CO₂ supplier in WA.

(ii) the disproportionate disruption to industry in the south west of Western Australia, and

No comment.

(iii) the nature of contractual arrangements forced on business and industry during the gas crisis and their status since the resumption of gas supplies from Varanus Island; and

At the time of the incident WA businesses that were advised by Alinta to reduce or cut their gas usage completely were told that they could approach Synergy to enter into a new gas supply contract. At this time Synergy, a State Government owned entity, could redistribute apparent 'spare gas' to new customers under new contracts, reportedly at substantially higher prices and for periods of 2 to 3 years.

The industry argued that:

1. Synergy, a State Government owned company, should redistribute spare gas to companies with the highest priority honoring existing contractual agreements, even if this agreement was in place with Alinta;
2. The supply should be available under interim contractual conditions, at existing prices, and with exit clauses to allow business to evaluate offered contracts by gas suppliers under normal gas supply conditions;
3. The change over period imposed by the WA Office of Energy (normally 5 days) to be reduced to nil;
4. Liquid Gas suppliers such as Kleen Heat may have unnecessarily capitalised on the crisis by asking companies to enter into contracts that business felt would have offered different conditions if the gas shortage would have not been present.

Although such contracts are confidential, WA businesses have offered to provide copies of these contracts to the inquiry upon request if treated in confidence.

b) the government response to the Western Australian gas crisis, including but not limited to:

(i) the adequacy of the crisis management response,

The State government response was poor, inadequate and uncoordinated. It lacked action and true support. In particular at the beginning of the incident, information was fragmented and patchy, inconclusive and meaningless to businesses. At the later stage of the gas crisis the public was misled believing that the crisis is over, where in many cases force majeure with many suppliers is technically still in place.

The State Government has reinstated two committees in response to the crisis: (1) Gas Supply Coordination Committee dealing with the priority allocation of gas and (2) a Recovery Committee. At the first committee, the food and beverage industry appeared to be unrepresented. The responsibility of this committee was unclear or no noticeable actions were taken and/or communicated to the wider business community. This Committee appeared to have determined a priority order of gas allocation as published on its internet site, however this priority was not enforced with any authority and seemed to have been the sole responsibility of Alinta, whose gas supply was severely decimated. The question can be raised what was the actual function, impact and achievement of this committee?

For the Recovery Committee – no apparent action, outcomes have been reported/or communicated. As with the first committee the effectiveness should be questioned.

(ii) the adequacy of reliance on one source supplies of gas for domestic markets,

Although WA does not only rely on one source of supply, Apache are the major source, providing more than one third of the supply with significant ongoing impact. Additionally Alinta, one of the two major gas retailers, were, at the time of the incident, sourcing most of its gas from Apache, thus the loss of the majority of the 300TJ per day needed to be carried by one retail buyer and a few large direct customers.

At the time of the incident, and in accordance with the terms of its licence issued by the WA State Government, Alinta provided gas to all residential customers in the Perth metro area and to approximately 10,000 small to medium size businesses. The large monopoly created by this arrangement needs to have greater management and contingency plans in the event of a significant loss of supply.

A greater risk however, is the single pipeline carrying gas, and the lack of any storage capacity to secure emergency supplies. The State Governments response in

evaluating such risks, implementing strategic plans and actions to ensure WA has storage capacities and can avoid crisis incidences, is seen as poor and inadequate. If these plans do exist they were not communicated appropriately, and it appears, were not implemented.

(iii) the provision of reliable and affordable supplies of alternative energy,

Alternative supplies were available at 4-10 times the costs of natural gas; however the State Government appeared to have no actions or plans in place to supply or encourage alternative and affordable supplies. The only noticeable action was the development and implementation of the Gas Bulletin Board to allow trading of spare gas. The Board failed to deliver any benefits at all based on the amount of usage and the amount of traded gas in comparison to offered gas.

The development of alternative energy (gas) supplies needs to be investigated, including ensuring that one supplier does not have a monopoly of essential utilities.

(iv) the feasibility of developing emergency storage facilities of gas in depleted reservoirs or other repositories, and

This potential of emergency storage facilities of gas has not been examined or debated widely as evidenced by the State Government's ineffectiveness during the crisis. This is a contingency action the State Government could have implemented in response to the crisis; and a plan that needs to be developed to secure a reliable and consistent supply of gas for the future.

The feasibility of developing emergency storage facilities of gas in WA must be a priority for the WA Government in order to minimise the risk of a future gas crisis and to provide reassurance to WA business and industry, and to the WA community that such an incident will not be repeated.

(v) the justification for any refusals to release relevant facts and documents publicly.

The Food Industry Association (WA) Inc and its members made requests for information during the crisis from the Office of Energy, the Department of Agriculture and Food, the Minister for Agriculture and Food and the Premier. Industry and business wanted to gain clarity about the status of the crisis situation, the expected outlook, potential ways to effectively manage and improve the situation, the long term impact, and assurances that similar situations can be avoided and better managed in the future by effective and efficient planning.

The lack of provision of this information on request was not explained or declared as confidential, and it is our view that there is no justification for not providing any information, or any justification for not responding to our requests for information.

Requests by business and the Association to meet with senior politicians to discuss the impacts and the concerns of business, and to offer industry support to collaborate on the development of a future plans to ensure that a similar situation does not occur in the future were refused or not responded to. There was no justification provided for this refusal, including from the Premiers' office.

The FIA wishes to note, that the Minister for Agriculture and Food was available to meet and discuss the industries and business concerns, but his offices ability to assist was of limited use, due to the confidentiality of the general matter imposed by

the Premiers office or his office ability to get access to relevant and meaningful information.

For more detailed information and written evidence, such as copies of contracts and correspondence please contact me on 08 6488 6654.

Sincerely yours

Andrea Berteit
CEO
Food Industry Association WA Inc

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