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Australian Government

INSTITUTE OF ENERGY ECONOMICS JAPAN

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It's my great pleasure to address the Australia Japan Joint Energy Seminar.

First, let me express my deep sympathies to the people of Japan following the earthquake and tsunami of 11 March this year.

Throughout your long history, the Japanese people have shown remarkable resilience in the face of difficult events and your strength and resilience have again been called upon following the natural disasters earlier this year.

Australia is proud to be part of the global effort to help Japan recover from disaster.

Australia and Japan: partners in growth

In understanding our trading and investment relationship it is helpful to look to the past.

The Australia-Japan trade relationship is Australia's longest standing bilateral relationship in the Asia-Pacific region.

In this context it is important to note that next year will mark the fifty-fifth anniversary of the signing of the Australia-Japan Agreement on Commerce, which was signed on 6 July 1957.

This was followed by the signing in Tokyo on 16 June 1976 of the Basic Treaty of Friendship and Co-operation between Australia and Japan – only last month we passed the thirty fifth anniversary of the signing of this important treaty.

From an Australian export perspective, our trading and investment relationship with Japan over the last fifty years really commenced with the development of the Pilbara iron ore industry.

The development of the Pilbara, and what was then a new industry, was financed on the basis of long terms contracts with Japan, with cargoes first shipped in the mid 1960s.

This followed the lifting in 1960 of the ban on exporting iron ore from Australia that had been in force since 1938.

Building on iron ore, in the 1980s the Japanese became foundation customers and investors in the North West

Shelf LNG project, and Japan received the first cargo shipped from the North West Shelf in 1989.

But the Australia/Japanese trade relationship is not just based on the resources of our West Coast.

Japan has been critically important in the development of our coal industry with 40 per cent of Australia's coal exports going to Japan.

The 1990s saw significant growth in Japanese tourists coming to Australia – and as Tourism Minister – I encourage you all to visit Australia!

And today we also see many Australians visiting Japan – including to go skiing in our summer.

But of course our relationship hasn't just been limited to the areas of my portfolio responsibility, resources, energy and tourism.

Who could overlook Toyota's significant investment in automotive production in Australia, the jobs this has created or the fact that they remain one of our most important manufacturers of high quality cars.

Over the years I think that both Australia and Japan have embraced the letter and spirit of our formal obligations – and we take seriously our role, as expressed in the 1976 Treaty in *"being a stable and reliable supplier"* to Japan.

Shared challenges in transforming electricity generation

Building on our historical trade relationship, I now turn to current challenges.

I recognise that energy is unquestionably top of mind for Japan at the current time as it faces difficult and inter-related issues concerning capacity, security of supply and future energy mix.

At this difficult time I would like to reaffirm that Australia is sensitive to Japan's energy security needs.

I also want to reinforce the value Australians place on our relationship with Japan, and we recognise that a strong Japanese economy is important to Australia's economic growth.

No discussion of energy in Japan at the moment could overlook your current challenges, resulting from the loss of capacity following the 11 March earthquake and tsunami.

Clearly the immediate task for Japan is to meet demand in the face of reduced capacity from existing nuclear reactors.

I know that the Japanese Government has implemented a number of measures to reduce demand in these summer months, with consequent impact on households, businesses and industry.

Energy mix

Quite aside from the short term challenge, the consequences of the March earthquake raise longer term questions around the appropriate energy mix for Japan.

I recognise that many, including your Prime Minister, are questioning the optimal energy mix for the future.

Currently Australia and Japan have quite different energy mixes.

We have different natural endowments of energy resources.

But both our nations must confront the challenge of transforming our electricity generation sectors.

Events in Fukushima have made the transformation in Japan both more complex and more pressing.

In 2009 Japan's electricity mix was split between coal (28 per cent), nuclear (27 per cent) gas (26 per cent), with oil and renewables making up the remainder.

This is quite different to Australia which is approximately 75 per cent coal, 15 per cent gas, with renewables and others making up the remainder.

Australia and Japan parallels

Both Australia and Japan are currently assessing where future energy and electricity supply will come from.

In Australia, we are having this discussion in the context of the introduction of a price on carbon from 1 July 2012 – something I will speak about in a minute.

In Japan, this discussion is occurring in a post Fukushima context.

As we in this room all know decisions regarding energy platforms are never taken lightly, recognising as we must the capital intensive nature of the sector and that we are deciding now how much and by what means electricity will be generated in 2030 or 2040 and beyond.

We must also recognise, given the significant sunk capital, significantly changing a market's energy mix will take time.

Future Investment

Japan and Australia are not alone in having a significant investment task ahead of us. Global recognition of the need to reduce greenhouse gas emissions is promoting many nations to reassess their energy mix.

This is encouraging global cooperation on clean and renewable energy technologies, which seeks to drive down costs and enable widespread commercial deployment.

And part of the challenge when it comes to these technologies, is assessing and adapting them to suit the policies, requirements, energy resources and energy infrastructure of individual nations. There will not be a “one size fits all” solution.

Rebuilding Japan

Alongside our Japanese partners, Australian companies are supporting the Japanese recovery with additional supplies of energy.

These are vital in the rebuilding of Japan’s cities and communities.

Australia has a proven track record as a reliable supplier.

Negotiation of individual supply contracts will always remain a commercial matter between companies but looking more broadly it is clear that Australia is ramping up production of energy and resource commodities.

Liquefied natural gas is – and will increasingly be – an important part of Japan’s long-term economic recovery.

Japan is our oldest, largest and most important trading partner in the LNG sector.

As I touched on earlier, Australian exports of LNG began more than 20 years ago from the North West Shelf, with Japan as the foundation customer.

Japan was also the foundation customer for our second LNG project – Darwin LNG.

Japan will be there yet again, as the foundation customer for the Pluto Project.

That's a clear indication of the strength of the relationship between Australia and Japan when it comes to LNG.

The role of gas

In light of efforts to reduce greenhouse gas emissions while maintaining energy security, the importance of gas cannot be overlooked.

Last year, according to the International Energy Agency, gas demand recorded its fastest growth in 40 years.

LNG trade was up 22 per cent – the largest percentage increase the world has ever seen.

The environmental benefits of gas further increase its attractiveness as an energy source.

Gas will be integral to a global low-carbon economy emitting roughly half the carbon per unit of electricity produced compared with coal.

It's also a flexible source of power generation to meet rapid demand surges, while providing back-up capacity to support and balance electricity markets.

The pace of LNG activity

Reflecting the role of gas, the pace of activity in Australia's gas sector will fuel economic growth right across the Asia Pacific region.

As a net energy exporter, Australia is increasing its capacity as a reliable supplier – especially of LNG.

Over the next five years, agreements to supply over 30 million tonnes a year of LNG to Japan will be in play.

Within five years, I expect total Australian LNG exports could top 50 million tonnes a year.

Australia will be the world's second-largest LNG exporter, and the largest LNG exporter in the Asia-Pacific region.

This compares with just 18 million tonnes of LNG we exported last year, of which about 13 million tonnes went to Japan.

Australia is now moving into a unique position among the world's LNG exporters.

We are the only LNG-producing country with three production models:

- conventional offshore gas with onshore LNG production;
- offshore floating LNG production; and
- coal seam gas-based LNG production.

On Australia's north-west coast we have two conventional operating LNG plants, which will soon be joined by Pluto, and by Gorgon in a couple of years.

The Ichthys LNG project is especially welcome.

INPEX is behind the single biggest investment in an Australian resources project by a Japanese company.

It will also be the first LNG project operated by a Japanese company anywhere in the world.

The project has received environmental approval and is in the process of gaining production licences.

In short, the Ichthys project is making significant progress towards a final investment decision later this year.

The Browse Basin, where those reserves are found, has huge potential.

Shell, for example, will proceed with the Prelude floating LNG project – with Osaka Gas as a foundation customer.

Floating LNG offers immense potential for developing remote and smaller gas fields which are not economical to develop using conventional LNG methods.

On Australia's east coast, coal seam gas is greatly enriching our conventional gas resources.

The QCLNG and GLNG projects have both taken final investment decisions, and are moving on to the construction phase.

Meanwhile, the APLNG Project now has environmental approval and is moving towards final investment decision.

Australia's coal seam gas resources will make a substantial contribution to Australia's total LNG exports.

In turn, that means a secure source of LNG imports for Japan.

Foreign Investment

We welcome foreign investment in our resources and energy sectors.

Foreign investment gives Australia the opportunity to develop more projects which, in turn, helps us to keep up reliable, safe and secure supplies of energy to the region.

Much of that investment goes towards new infrastructure, which raises productivity.

That's both good for Australia and for our trading partners.

Since the 1960s, foreign investment has allowed Australia's resources industry to develop far beyond what it could have achieved from domestic investment alone.

For instance, our offshore exploration, underpinned by world-class pre-competitive data, presents a wealth of opportunities for investment and petroleum discoveries.

Some of you met staff from my department earlier this year to discuss the opportunities, and I encourage you to consider the acreage available in the 2011 Release.

Australia is committed to open and transparent trade and investment frameworks, and I look forward to welcoming more investments from Japan in the years to come.

Carbon pricing

In that context, can I also say that the Australian Government fully understands that investors need certainty.

From a policy perspective one area of uncertainty in recent years has been around the question of pricing carbon.

Reducing greenhouse gas emissions is a global challenge confronting all nations.

While there are differences in approach, the international community largely accepts that we need to reduce greenhouse gas emissions.

Where there is less consensus is on the question of how we do this in the most cost effective way.

It is a question to which each country must find its own answer.

In Australia we have opted to implement a carbon price from 2012 leading to an emissions trading scheme from 2015.

Our system, to be introduced from 1 July next year will involve an initial fixed price period with AUD\$23 a tonne starting priced, followed by the move to a floating price from 1 July 2015.

This will apply a cost on covered emissions produced in Australia – but will not price emissions generated in consumption where this consumption occurs outside Australia.

We want to play our role in reducing global emissions while at the same time preserving our international competitiveness, particularly for our trade exposed industries.

We want to maintain energy security and the strength of our economy as well as minimising the cost impacts for our citizens.

The final carbon pricing package announced by our Prime Minister just over a week ago contains measures to address these issues.

With assistance for households, it also includes measures to support our coal, steel and aluminium industries, and

provides transitional assistance for other emissions intensive trade exposed industries.

It establishes an Energy Security Fund which will allow us to manage the retirement of some of the most emissions intensive electricity generators and transition to cleaner energy sources in an orderly manner.

And it provides support for investment in clean and renewable energy technologies.

It will do this through the \$3.2 billion Australian Renewable Energy Agency which will administer Government investment to promote, research, development and deployment.

And through the \$10 billion Clean Energy Finance Corporation which will leverage private sector financing and drive innovation through commercial investments in clean energy through loans, loan guarantees and equity investments.

Together, with the 20 per cent by 2020 Renewable Energy Target, this package is Australia's plan for a *Clean Energy Future*.

Conclusion

Today I have touched on a significant range of challenges and as we know the key to finding the solutions is our human capacity and our people.

In this respect both Australia and Japan are very well placed.

There is however one individual I would like to recognise in particular this morning.

On behalf of the Australian Government I express our thanks and appreciation to the International Energy Agency's outgoing Executive Director Mr Nobuo Tanaka.

Both Australia as a longstanding member and Japan as a founding member have benefited from, and will continue to support, the important work of this well-respected body and I thank Mr Tanaka for his leadership in recent years.

Ladies and gentlemen, Japan and Australia have a strong relationship.

IEEJ: July 2011

We have a trade relationship that is mutually beneficial and I hope that it can go from strength to strength.

Thank you

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