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ALGA MAIL		MINISTER FOR RESOURCES AND ENERGY
MINISTER FOR TOURISM		
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PARLIAMENT HOUSE
CANBERRA ACT 2600

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Mr Geoff Lake
President
Australian Local Government Association.
8 Geils Court
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28 OCT 2010

Dear Mr Lake

Thank you for your letter of 1 October 2010 concerning the resolutions passed by the 2010 National General Assembly of Local Government in relation to the use of natural gas as a transport fuel and Australia's policy approach to dealing with the possibility of peaking oil supply.

The Australian Government supports the development of a range of alternative transport fuels to help reduce our reliance on imported oil, improve fuel security and reduce greenhouse gas emissions. The main assistance available to alternative fuels currently is via a concessionary excise regime which provides effective excise free status for alternative fuels until 30 June 2011. From 1 July 2011, excise will be phased in for all alternative fuels, including gaseous fuels, on an energy content basis with a further 50% discount as originally announced by the Howard Government and supported by both sides of the Parliament.

On 15 October 2010, the Assistant Treasurer released a discussion paper on the implementation of the excise regime from 1 July 2011. The discussion paper can be accessed from the Treasury website at www.treasury.gov.au. Excise for compressed natural gas (CNG) will be introduced at 3.8 cents per cubic metre over 5 years, resulting in a final rate of 19.1 cents per cubic metre. It is proposed that the excise for CNG will be imposed on the manufacturer or importer of CNG for transport use, other than for export. The Government will conduct targeted consultations prior to the closing date for submissions on 12 November 2010. I encourage you to provide feedback on the issues raised in the discussion paper to the Treasury Department.

The Australian Government's Energy White Paper process conducted over the last two years identified a number of energy policy areas of importance to Australia. One of these is the development of an Alternative Fuels Strategy which I have asked my Department to progress during the next 12 months. I expect that this process will examine issues such as the

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impediments to the development of various alternative fuels, including the wider use of CNG and liquefied natural gas (LNG) as transport fuels in Australia. The Alternative Fuels Strategy process will assist in ensuring that the development and roll out of alternative fuels is underpinned by effective and efficient policies, programs and regulation.

In relation to the question of exports of Australian natural gas, the LNG development projects are generally too large and costly (involving billions of dollars over several years) for oil and gas companies to bring them online for the domestic gas market alone or for the relatively small domestic CNG and LNG transport fuel markets. Large, long-term LNG export contracts are required to raise project development finance and provide the economies of scale that make the development of Australia's natural gas reserves economically viable.

The Government is working to identify and address issues that may impact on Australia's ability to become one of the world's leading LNG exporters and ensure the long-term supply of gas for domestic users, including as a transport fuel. The Government believes that we can get this balance right and ensure the continued strong contribution of the oil and gas sector to Australia's development.

The Australian Government takes energy security very seriously, including the possibility of peaking oil supply. The Government is closely monitoring assessments of global oil reserves and is independently evaluating the risks to Australia's current and future energy security.

In the 2009 World Energy Outlook, the International Energy Agency (IEA) forecasts non-Organisation for the Petroleum Exporting Countries and global conventional oil production to peak in 2010 and 2020 respectively, but goes on to argue that total global oil production is not expected to peak before 2030. A gradual decline in global conventional oil production will be offset by rising non-conventional oil production, as technology to extract non-conventional oil matures. Further, the IEA has reported in the past that "estimates of remaining proven reserves of oil and natural gas liquids range from about 1.2 to 1.3 trillion barrels (including about 0.2 trillion barrels of non-conventional oil). They have almost doubled since 1980. This is enough to supply the world with oil for over 40 years at current rates of consumption".

Analyses such as this help to inform the Government's own comprehensive assessments and policies relating to liquid fuel security, including the National Energy Security Assessment (NESA) and the Liquid Fuel Vulnerability Assessment (LFVA), which were both released in 2009. The NESA concludes that Australia's liquid fuels security is likely to remain strong over the next fifteen years, reflecting deepening regional markets for crude oil and refined products. The NESA can be found at: www.ret.gov.au/energy/energy_security.

The NESA's conclusions are sensitive to the continued operation of well-functioning regional and global markets, and timely and adequate investment throughout the oil-supply value chain to reduce the risk of supply crunches. Indeed, the key security risk facing global energy markets is one of insufficient and ill-timed investment in the wake of the global economic slowdown, rather than a lack of oil reserves 'in the ground'.

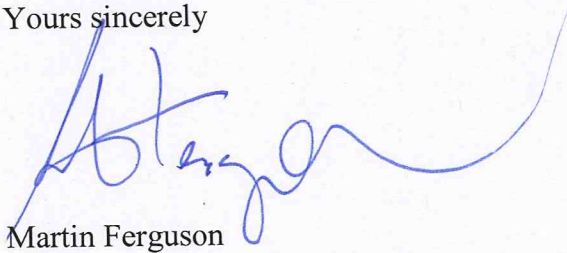
According to the IEA, planned global investment in oil and gas production fell by about one-fifth (about US\$90 billion) in 2009 as a result of tighter financing conditions and lower investor confidence. A lack of timely investment in the present has the potential to create very tight oil supply-demand balances in the future as the global economy moves into its recovery phase.

In this context the Government is encouraging exploration and development of Australian offshore oil and gas reserves to the benefit of the Australian community. Through Geoscience Australia, the Government continues to undertake important pre-competitive work to encourage commercial exploration in our extensive frontier areas, both onshore and offshore.

Energy security is ultimately a global issue. In order to promote timely investment throughout oil value chains and to maintain open, transparent and competitive global liquid fuels markets the Australian Government engages actively and effectively within fora such as the IEA, the International Energy Forum, the Group of Twenty (G20) and the Asia-Pacific Economic Cooperation Energy Working Group.

Thank you for writing to the Government on this issue. I trust this information is of assistance to you.

Yours sincerely



Martin Ferguson