



**Ayres-Lisa**

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**Sent:** Wednesday, 20 September 2000 3:45 PM  
**To:** lisa.ayres@acc.gov.au



Mac Word 3.0

On behalf of Jim McLeod

Re: Application for Authorisation of Joint Marketing by PNG Gas Producers

Incitec is pleased to provide its view on the above subject matter. Please refer to submission attached.

Incitec supports the application. Incitec also recommends the matter be given urgent attention by the ACCC.

Regards,

Jim McLeod  
Supply Manager

(See attached file: Submission to the ACCC by Incitec.doc)

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## SUBMISSION TO THE ACCC BY INCITEC

### Authorisation of Joint Marketing by PNG Gas Producers

#### **1. Incitec**

Incitec is a major current consumer of natural gas, consuming approximately 23PJ a year in Brisbane and Newcastle. Incitec also has projects to consume additional natural gas dependent on economics of supply.

#### **2. Application**

Incitec understands that the PNG producers have made application for approval of conduct that may contravene Section 45 of the Trade Practices Act and that a key issue is that Santos and Exxon/Mobil participate in joint marketing. It has been Incitec's contention that the protection against Section 45 of the Trade Practices Act, in the past for joint marketers, with no sunset clause, has been to the detriment of Incitec. This protection has in effect created geographic monopolies in NSW, QLD, Victoria and South Australia. Whatever the arguments previously raised regarding an immature (thin) market, or an inability to develop a gas field, are not acceptable now from these well established gas fields. The problem has been exacerbated by a lax State Government attitude to awarding exploration acreage in the past.

#### **3. PNG Application**

Incitec addresses the questions posed by the ACCC.

- *The PNG Gas project cannot proceed without Santos and Exxon/Mobil's involvement.*

Incitec accepts this argument, that the reserves contained in the Hides field (Exxon/Mobil plus Santos) are necessary to provide adequate gas to fulfil the total gas requirements of the capital projects to be initiated by the end users over the necessary contract term. Without this long term security these projects will not be viable. Incitec accepts that there is a minimum volume to provide supply viability.

- *It is necessary for Santos and Exxon/Mobil to participate in the joint marketing of Project gas.*

The alternative is to have these two parties separately marketing. This is generally desirable, however the outcome presumably is a tendering process between two supply and many user camps, where neither supplier can deliver enough gas for all projects for the contract years. The ensuing delays would mean the project would fail the timetable and thus the window of opportunity. In this situation, unusually, the supply infrastructure, the transmission pipeline, and the great deal of gas consumption are all grass roots projects each with contracts that require the project to get up soon, or not at all.

- *Santos and Exxon/Mobil cannot be considered competitors of the PNG project in Queensland.*

Santos and Exxon/Mobil own the majority of the current proven gas reserves in Queensland (SWQ) and to that extent are certainly competitors of additional PNG gas, beyond the PNG foundation supply contracts. However they are not competitors for the projected Foundation Agreements as, firstly there is not nearly enough gas in SWQ, and secondly the price requirements of the SWQ producers exceeds the gas price at which these new projects are viable. Otherwise, the projects would have already been approved. Incitec believes that if the project is successful the producer's margins will be slim, such that questions on the monopoly rent will not exist. Incitec understands that the Application does not seek protection for joint marketing etc activities beyond financial closure of the PNG project, ie for incremental and subsequent gas sales.

#### 4. **Recommendation**

Incitec believes that the current situation is unique in that there is an opportunity to provide very large resources of gas into Queensland at a price which has the potential to dramatically transform industrial growth in Queensland. The project therefore demonstrates the public benefit is well in excess of any anti competitive detriment.

This statement is made on the basis that the practice of joint marketing from PNG is not authorised by the ACCC beyond the established foundation gas supply agreements. Incitec would encourage the ACCC to provide an interim and final authorisation of their joint marketing conduct prior to financial close of the project.

J McLeod  
**Supply Manager**