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Hiving off gas could hobble a golden gosling

Australia is in the midst of a massive boom in liquefied natural gas production, but proposals that some of our increasing gas output should be reserved for local manufacturers are a reversion to the old thinking of industrial protection. For the proposals amount to a form of protection that would harm a major export industry – if our politicians are ever misguided enough to act on them.

As those who attended *The Australian Financial Review* National Energy Conference last week found out, the gas business is booming. But as the conference was also told, gas remains a highly competitive international industry with rising costs. Given that situation it makes no sense to hobble the burgeoning gas industry by heeding the call of chemical and industrial manufacturers for the federal government to reserve part of local production at cheaper prices for their use.

Industry chiefs who made the call at the launch of the Future of Manufacturing in Australia Forum in Sydney early last week said the value of the gas could be multiplied if it was used in making chemicals such as ammonia. A precedent they had in mind was that of the West Australian government, which reserves about 15 per cent of the state's LNG production for local use. Their suggestion, echoed by other commentators, has drawn a counter-blast from David Byers, chief executive of the Australian Petroleum Production and Exploration Association. Writing to this newspaper, Mr Byers has pointed out that major gas projects will proceed only if they are "economically viable and linked to international markets".

In fact, as was shown at the *AFR* conference and by reports on the market, the scale of investment in LNG projects in Australia is set to skyrocket, from $10 billion in 2010 to an estimated $30 billion in 2015 on existing projects alone. In the next six years to 2018, export volumes are expected to quadruple to 80 million tonnes a year, adding substantially to export growth and tax receipts. But the projects required to reap those benefits require massive capital investment over long periods, as well as sophisticated technology and advanced project-management skills. The costs of these crucial inputs have been increasing. The high dollar, shortages in skills, the problem of attracting staff to remote areas and the increasing regulatory burden, particularly in meeting environmental regulations, have all added greatly to cost pressures. Environmental concerns of varying merit are particularly making themselves felt in the coal seam gas end of the market. These costs cannot be passed onto hapless consumers. Prices are determined by an international market and competition is set to increase rapidly. With advances in hydraulic fracturing (or "fracking"), gas reserves have multiplied in North America. New technology allows drilling to go deep underground and then horizontal for kilometres to tap shale gas, prompting talk in the US of a "shale gale". Major new fields have been discovered off East Africa. Qatar is also expected to increase its production of gas.

Production will expand worldwide. Australia may not hold its natural advantage very long.

Despite looming competition for customers as gas supplies increase, the gas market, unlike the oil market, remains fragmented. There are major price discrepancies between the Asian, Middle Eastern and European markets. With extra supply becoming available, the price of gas in the US has tumbled well below the price in the rest of the world. But the US market is split into regions, and without any history of LNG exporting, Australia has an opportunity to lock in long-term contracts to export gas at good prices.

That opportunity may quickly pass us by. The US Department of Energy is being asked to approve an increasing number of applications for export terminals. It is estimated that about a fifth of that country's natural gas exports could be shipped to India, Japan and China within a few years. With those major opportunities at hand, it makes no sense to reserve cheap gas for local manufacturers. The situation is analogous to that of cheap electricity supplied to the aluminium smelters. Despite that advantage, those smelters are now crying poor and talking of retrenchments due to the high dollar.

As the example of the aluminium smelters indicates, industrial protection does not work. The industry concerned will always be dependent on protection. In the case of reserving gas for local manufacturing, we would be hurting a major industry which is able to earn export income in order to support industries in which we have no competitive advantage.

Gas production is set to expand worldwide, and Australia may not hold its natural advantage in this area for very long. We are in a high-stakes race to gain technological and cost edge in supplying a developing energy source to the world. We cannot afford to handicap our industry by reserving sections of its output to prop up manufacturers.

They should learn to stand on their own two feet.

GALLERY **DAVID ROWE**

No agenda but the news

There is no commercial agenda in the Financial Review's pay TV piracy revelations, says editor-in-chief **Michael Stutchbury.**

The *Weekend Australian*'s trademark elbows-out reaction to this newspaper's pay TV piracy claims involving News Corporation's former subsidiary NDS focused almost exclusively on questioning the motives behind the stories and how they came to be published. It was highly personalised around me as editor-in- chief of *The Australian Financial Review.*

Motive and process are legitimate issues, although subsidiary to the substance of the revelations contained in the forensic report by the *Financial Review*'s Neil Chenoweth, a Walkley award-winning business journalist, author of two books on Rupert Murdoch's corporate empire and widely considered to be a global expert on News Corp.

The *Weekend Australian* suggested on its Inquirer section cover and then in an editorial that the *Financial Review* had exhumed claims that had surfaced more than a decade ago in a series of court cases which NDS had either won or had dropped, and that the mountain of email evidence from NDS executives was the same as used in one of those cases.

Moreover, the timing of the *Financial Review*'s publication had "more than a whiff of conspiracy about it". The "only possible conclusion" was that Fairfax Media was deliberately using its financial daily to damage its chief rival.

The *Financial Review* was hypocritically engaging in "the same standard trade practice" it had accused NDS and News of in seeking to "eliminate" its main rival. The *Financial Review* was a pawn in the same kind of dirty tricks campaign.

A related initial reaction from News suggested the *Financial Review* was claiming that NDS had sought "to undermine Austar so that Foxtel could bid for it 13 years later", an idea it argued was far-fetched and laughable.

Putting other personal character references aside, it is important to respond, if only in the interests of *Financial Review* readers.

As we said in response last week, Chenoweth's initial report did not make the above Austar claim and anything in our subsequent reports should not be read as such.

As Chenoweth set out last week, claims about NDS hacking of its rivals' security systems have been around for more than a decade.

DirecTV sued NDS twice but the lawsuits were dropped after News gained control of the American pay-TV operator in 2004.

However, the 14,400 NDS emails obtained by Chenoweth go way beyond the emails aired in previous court action. NDS and News have demanded that the *Financial Review* remove the close to 5000 of these emails that we have posted online. Just as incriminating email evidence uncovered by *The Australian*'s Hedley Thomas belatedly changed the course of the Queensland flood inquiry, this new NDS material brings the activities of News Corp's secretive subsidiary into sharper focus.

As reported by the *Financial Review*, the Asia-Pacific head of Operational Security said in one of these internal emails that she didn't want a Sydney hacker, David Cottle, arrested until he had put in place a successor to complete the "hack" of Irdeto, a rival system to NDS used at the time by Austar.

In fact, the Financial Review has strongly defended News Limited papers against Gillard government attacks.

These emails further reveal for the first time that NDS had a budget line item it described as "money set aside for payment to Police/Informants" under which it paid thousands of pounds to Surrey Police in the UK. NDS described this as a one-off charitable donation but Surrey Police are at the heart of the separate News phone hacking scandal in the UK and there is evidence of more than one payment.

Britain's *The Observer* reported on the weekend that "a computer piracy website, secretly supported by one of Rupert Murdoch's companies, openly promoted advice on how to hack BSkyB's rival", according to documents obtained by the paper.

Such reports, along with the BBC's *Panorama* report on NDS due to be aired in Australian by SBS tomorrow night, underline that it is not just this masthead that considers this to be a legitimate story. The *Financial Review* has not pursued the story out of some Fairfax conspiracy to damage its main commercial rival in Australia. It is hard to imagine how it would be in Fairfax Media's commercial interests to try to do so against a much larger global media empire.

In fact, the *Financial Review* has strongly defended News Limited newspapers in Australia, including Sydney's *Daily Telegraph*, against Gillard government attacks on them that have culminated in the Finkelstein inquiry's call for a heavy-handed media regulator. As this masthead's editor-in-chief, I have no anti-News axe to grind. Before rejoining the *Financial Review* in October last year I enjoyed more than a decade at *The Australian*, including more than five years as editor, and left on good terms to take up a new offer. I consider Rupert Murdoch to be one of Australia's greatest ever business figures. And I hold many of those with whom I worked at News, including Lachlan Murdoch, John Hartigan and Chris Mitchell in high regard. The same holds for new CEO Kim Williams. I would be very surprised if they or other local News Ltd executives had knowledge of any local NDS wrongdoing and we have not sought to imply otherwise.

The *Financial Review* has published full page advertisements from NDS setting out its position and, today, a substantial rebuttal from Mr Williams.

I have not rejoiced over the UK phone hacking scandal, nor over the shutdown of *The News of The World*, which had claimed great investigative scalps such as the 2010 Pakistani spot-fixing cricket scandal.

News says the *Financial Review* should take any evidence of NDS wrongdoing to the police. The *Weekend Australian* scolded us for loudly beating the drum without alleging criminal activity. But rather than make legal judgments, the *Financial Review* has followed the story as a legitimate issue of corporate governance, reporting and interpreting the email evidence as we find it.

The overall picture is of a subsidiary that seems to have operated with its own agenda and at the edge of ethical practice in the murky world of technological security. It is a picture that should concern all businesses seeking to maintain governance and ethical standards across operations in multiple jurisdictions.