Albanese’s gutless gas policy to blame for ‘sticky’ inflation

13 Aug.—Needled by the Albanese government’s attempts to absolve itself of responsibility for Australians’ economic woes by blaming them all on the Reserve Bank of Australia’s interest-rate hikes, senior RBA officials have hit back by stating almost in so many words that the real main reason inflation is so “sticky” is that the government has failed completely to rein in energy prices, even as it papers over that fact with so-called “rebates” which are really just taxpayer-funded subsidies to energy companies.

ABC’s 2019 report that the Morrison government was scoping out a national gas reservation policy, records of which the Albanese government is refusing to release publicly.

The high price of gas being both a major impost on households and businesses in its own right, and—thanks to the dysfunctional design of the so-called National Electricity Market (NEM)—the primary factor driving East Coast electricity prices sky-high as well, the government could quickly and easily bring down the cost of energy and inflation along with it by drawing upon broad cross-bench support to enact a domestic gas reservation scheme, and using its existing powers to impose temporary restrictions on exports in the meantime. As in virtually everything else, however, when it comes to energy policy the Labor Party under Anthony Albanese is proving far less concerned about serving the nation and people it was elected to represent, than it is about pandering to vested interests—which in this case include not only the cartel of gas companies it is allowing to price-gouge Australians, but also Australia’s socalled “ally” and “partner” nations, at least one of which is happily cashing in on the rort. So concerned, in fact, that transparency campaigner and former Senator for South Australia Rex Patrick has caught the government actively suppressing public debate on domestic energy policy for fear of upsetting them.

Australia is among the world’s biggest exporters of liquified natural gas (LNG). Yet for want of export controls such as other energy-exporting countries, and indeed the state of WA, employ to ensure their own needs are met, the cartel of extraction and export companies that control the gas market are able to create artificial “shortages” in the rest of the domestic market virtually at will. Immediately it was elected in May 2022, the Albanese government declared that “all options [were] on the table” to deal with rising energy prices, which had skyrocketed to record highs (from an already absurdly high base) ever since US-EU sanctions on Russia over its military incursion into Ukraine had upended global energy markets a few months prior. But instead of instituting WA-style domestic reservation, as Energy Minister Chris Bowen mooted at the time,[1] Labor has limited itself to making a few tweaks to the (still unused) Australian Domestic Gas Security Mechanism (AGSM) that the Liberals enacted in 2017, which nonetheless remains effectively useless since it still only guarantees *supply* rather than a reasonable *price*; and a $12/gigajoule *wholesale* gas price “cap” that does not actually control *retail* prices, and which the gas cartel continues to breach with impunity anyway, all the while pulling gas out of the ground for around $1-$2/GJ.

RBA rejects Chalmers’ extend-and-pretend

While the members of the energy cartel thus continue to make out like the bandits they are, the RBA has been using its “blunt instrument” of interest rate hikes—13 of them since May 2022, taking the underlying interest rate from 0.1 to 4.35 per cent, the steepest increase in history—to bludgeon family businesses and household budgets to death so as to reduce “demand” by increasing unemployment and sending mortgage repayments (and therefore also rents) sky high, so that people on average have less disposable income. (And if that sounds like an inhuman calculus, it’s because it was designed by monsters; see the Citizens Party’s pamphlet *The Genesis of Austerity*, available for download at citizensparty.org.au/genesis-austerity, for the proof.)

Unwilling to take on the corporate powers-that-be, including because of its own sellout to neoliberalism, the Albanese government is apparently content to let this process play out as it waits for some deus ex machina to fix things. To dull the pain of power prices (and thereby improve Labor's prospects of re-election) in the meantime, Treasurer Jim Chalmers announced in his 15 May budget that households will receive a "rebate" on their power bills of $300 in the 2024-25 financial year, to be paid in quarterly instalments of $75. Chalmers says the payments are disinflationary, because they lower the (nominal) cost of a major item in the "basket" of goods and services upon which the Consumer Price Index is calculated. Austerity-mongers say they are inflationary, because households will go out and spend the $300 on something else. The RBA, taking an uncharacteristically nuanced approach, says that they are essentially irrelevant in the greater scheme of things, because they merely transfer the cost from a direct impost on households via their power bills, to an indirect one via their tax bills, and will therefore have negligible effect on inflation in the long run—the implication being that the government can and should do something that *will* if it is serious about wanting to help curb inflation by lowering energy costs, something the RBA's interest rate settings have no real bearing upon.

Disputing the RBA's "assessment that the economy was still too strong and that government spending was prolonging inflation", the *Australian Financial Review* reported 7 August, Chalmers had stated that "We are being helpful with the design of our cost-of-living policies, which help us get back to [the 2 to 3 per cent inflation] target sooner." But RBA Chief Economist Sarah Hunter told a 7 August Senate hearing that a "sustained return to target" is "not something that we can see coming from those particular policies, because … by their nature, they are time-limited and temporary." Whilst she acknowledged that the RBA expects the rebates will temporarily push so-called "headline" inflation down to 3 per cent by the end of the year, Dr Hunter said that it would then rebound to 3.7 per cent when they end. And as RBA Governor Michele Bullock had stated the previous day, AFR noted, the rebates in any case will not meaningfully affect the RBA's preferred measure of "underlying price pressures", and therefore wouldn't make the RBA more like to cut interest rates.

In other words, wrote MacroBusiness co-founder (and staunch critic of the RBA) David Llewellyn-Smith on 8 August, "In the RBA's view, either the Albanese government addresses the core driver of the energy shock, the gas cartel, or inflation is not coming down. In the central bank's view, the treasurer's bill rebates do not cut it. In effect, the central bank has declared war on the gas cartel. …

"The government now faces a stark choice. It addresses the underlying causes of the energy shock or it faces the prospect of losing power as the central bank refuses to cut interest rates. Equally admirably, the central bank has put its own independence on the line because the federal opposition has no plan to address the gas cartel, either. So, if the opposition wins power, it will either have to replace the governor and gut the board, or address the gas cartel itself."

Foreign allegiances?

As noted above, the problem of ridiculously high gas prices in eastern Australia is not new, nor can it legitimately be blamed upon Russia as Albanese *et al*. are wont to do. Extra costs to the consumer resulting from bipartisan deregulation and "competition" policies of the 1980s and '90s aside, the current stranglehold over the East Coast market which allows the export cartel led by Woodside, Santos and Origin to price-gouge Australian consumers at will was granted to them in 2012 by the Gillard Labor government (in which Albanese and all his senior ministers were cabinet members), when it allowed them to connect all their existing operations to their new export terminals without imposing any legal obligations regarding domestic supply or pricing.

Unsurprisingly given the large "campaign donations" and membership fees paid by gas companies to both major parties every year since (yes, corporations can be members of Australian political parties; isn't "democracy" grand?), neither has done anything significant to curb the cartel's power. Rex Patrick however reports that five years ago the Morrison government seemed at last to be taking the issue seriously. "Just after the [May] 2019 election", Patrick reported 6 August for Michael West Media, "I flew across to Western Australia and spent much of the day with the Finance Minister Mathias Cormann. In his home state there is a gas reservation policy that reserves 15 per cent of gas produced in the state for Western Australian businesses and households. Western Australians pay far less than people in the eastern states because of this policy."

Patrick succeeded in convincing Cormann and then- Resources Minister Sen. Matt Canavan to "pursue a prospective national gas reservation policy", he wrote, and the government formally announced its intention to do so on 5 August 2019. "They set about preparing an issue paper, which they completed in October 2020, and then set about engaging the industry. Submissions were received, and an options paper was sent to the Minister for Resources in November 2021." The issue had by then been sidelined by COVID, however, as well as by "a re-focussing of policy by then-Prime Minister Scott Morrison on what he called a 'gas-fired recovery'. The paper, with an array of options for a gas reservation scheme, was buried."

In light of the cost of living crisis, and unhappy at seeing a policy proposal that would help solve it "euthanised without debate", Patrick wrote, he sought the paper's release under the Freedom of Information law—whereupon "It quickly became clear the Albanese Government wanted it kept under wraps", and refused to release so much as a single paragraph. "At that point most FOI applicants give up", Patrick wrote, "but I put $1,121 cash on the barrelhead to take the matter to the Administrative Appeals Tribunal." The government immediately "relented and gave me half the document. But they were determined to deny access to the most significant information—the various gas policy options identified." Incredibly, the AAT agreed, having accepted arguments from the Department of Foreign Affairs and Trade (DFAT)—given in a secret affidavit and a hastily convened closed session, from which Patrick was excluded—that, as the AAT judgement put it, the reliance of Japan, South Korea and Singapore on energy from Australia "provides the contextual setting for potential damage arising from disclosure of information relating to gas reservation in Australia because of the very real economic impact that Australia's domestic policies could have on those countries." Or as Patrick summarised the case: "As Australians struggle to pay rent and buy groceries, our government is denying informed debate on a major cost-of-living remedy. … The effect of the government's successful claim in the AAT is that Australians are not allowed to engage in domestic policy debate because it might offend the Japanese."

As if on cue, the 7 August *AFR* trotted out former Japanese Ambassador to Australia Shingo Yamagami to decry the idea of domestic gas reservation, recently revived by the Greens, as "energy nationalism" and a dire threat to Japan's economy. "Japan imports 40 per cent of its gas from Australia and, by 2030, will still need gas to generate 20 per cent of its electricity", *AFR* reported. "'If the Greens proposal goes ahead, it will completely weaken Japan as an economic powerhouse', [Mr Shingo said]. 'Economic activity will come to a halt and that will damage Japan's standing in this severe strategic environment. Do the Greens want a strategically weak Japan? That will affect the strategic position of Australia.'"

Actually, no. MacroBusiness's Llewellyn-Smith told the real story in a post later the same day. Most of the liquified natural gas (LNG) Japan buys from Australia comes from WA and the NT anyway, he noted, but it also takes 80-100 petajoules (PJ; thousands of gigajoules) a year out of the East Coast. But far from being dependent on Australian LNG lest its economy "come to a halt" as Shingo claimed, "Japan is *on-selling to other countries about 30mt* [million tonnes] of LNG per annum, which is roughly 1600 PJ", Llewellyn- Smith wrote (emphasis added), and has in fact re-exported *more than the entire amount it has imported from Australia* for the last three years running. Meanwhile, "Australia's east coast only needs to find about 200 PJ to solve all its energy problems", and just reserving the 80-100 PJ Japan takes— which it could easily replace and doesn't need anyway— "would solve all our problems for a decade and potentially forever", he wrote. "If you will pardon the expression, f**k Japan. What kind of an ally and friend so rorts the energy from another that its economy dies? Where is the resources nationalism in preventing that?"

If these are the "friends" Albanese is more worried about pleasing than he is about the vital interests of Australia and its people, then who needs enemies?

Footnotes:

1. "Energy market madness as neoliberalism comes home to roost", *AAS*, 8 June 2022.

By Richard Bardon, Australian Alert Service, 16 August 2024
