3RD ANNUAL COAL-TO-LIQUIDS
AND
GAS-TO-LIQUIDS CONFERENCE

Novotel
Brisbane
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Speech for
Hon Martin Ferguson AM MP
Minister for Resources and Energy
Minister for Tourism

****CHECK AGAINST DELIVERY****

Thank you.

It is a pleasure to be here and to see so many familiar faces.

This is the first speech I have delivered on coal-to-liquids and gas-to-liquids as the Minister for Resources and Energy.

But it is not the first speech I have delivered on CTL and GTL nor the first time I have been to this conference.

Indeed I addressed your first annual conference back in March 2006 in Perth.

I said then that I regard this industry as the key to securing Australia's energy future.

And if you saw *The 7.30 Report* last Thursday you would have heard me say that:

"Energy security is absolutely critical to Australia's economic prosperity and [that] I believe coal-to-liquids and gas-to-liquids will play a major role in Australia's energy future."

I am not the first Labor Resources Minister to hold that view.

Paul Keating, as a former Resources Minister, was a great advocate of CTL and GTL technologies a quarter of a century ago.

Back then and even as recently as a few years ago there was a lot of scepticism about CTL and GTL.

Today things are different.

The industry is real – and taking off – and ultra clean GTL diesel is in the global marketplace, attracting significant premiums.

The product is becoming highly sought after with high cetane for better performance, zero sulphur and low aromatics for cleaner burning.

GTL plants in Qatar and Malaysia are supplying significant markets in Europe and Thailand with Shell selling GTL diesel blends to over 3000 retail sites.

South Africa has had CTL for over 50 years and China is currently constructing its first plant at Shinhua – to produce 20,000 barrels a day.

CTL and GTL marketers are working with major automotive manufacturers in California and Europe on engine and product development that delivers better performance and efficiency, and lower emissions.

Leading companies like Cummins, Bosch, Daimler, Renault, and VW are involved in these projects and seriously interested in the future of this high quality diesel product.

CTL will soon be real right here in Queensland at Chinchilla.

Linc Energy is about to open a pilot Fischer-Tropsch plant that will produce 5 barrels a day of ultra clean diesel using gas feed from its underground coal gasification project.

This is a very exciting development at the cutting edge of energy science and technology, and I wish the company every success in scaling up to commercial volumes.

My Department is working closely with Monash Energy – a joint venture between Shell and Anglo – on a potential CTL project in the Latrobe Valley in Victoria – and with the Sasol Chevron joint venture on Australian GTL prospects.

And recently I was also made aware of interest in GTL by Central Petroleum in the Northern Territory.

Both the Department and I expect to hear much more from other proponents in the future.

CTL and GTL will be a very important part of the Department's work over the next few years in the context of securing Australia's energy future.

The first priority is to implement Labor's election commitment to undertake a **National Energy Security Assessment.**

This assessment will provide an integrated picture of the outlook for electricity, gas and liquid fuel supply and demand over the next five, 10 and 15 years.

I can report to you that this assessment is already underway with stakeholder consultation planned for the second quarter.

Good policy is about a contest of ideas and therefore I encourage you to get involved in this process.

Without pre-empting the outcome of the National Energy Security Assessment, there are some serious challenges to be considered.

With only about 8 years known oil reserves remaining at today's production rates, Australia is looking down the barrel of a $27 billion trade deficit in oil and condensate by 2015.

This is why we have to open up more oil frontiers but also continue to develop the potential of alternative fuels.

That includes the biofuels industry – particularly second generation technologies which will benefit from a $15 million Australian government grant program – as well as CNG, LNG, LPG, and gas- and coal-to-liquids.

Australia today is oil poor but gas and coal rich.

Not only do we have to find the next Bass Strait, we have to do more with our vast reserves of gas and coal.

We have been finding gas faster than we produce it for a quarter of a century and we have well over 100 years worth of reserves.

Even more if we include the vast potential of coal seam methane where Queensland is leading the world in production technology.

From almost nothing five years ago, coal seam gas now supplies around 16 per cent of eastern Australia's domestic gas.

I note that there is also enormous interest in LNG from coal seam methane here in Queensland – with four projects on the drawing board in Gladstone – an idea that was but a pipe dream just a few years ago.

And if LNG can be done using coal seam methane, so can GTL.

These are complementary industries in many ways:

- they both require large volumes of gas and can support gas production infrastructure investment that smaller projects can not;
- the LNG market is still largely dependent on long-term contracts, GTL can be sold into a fungible spot market;
- LNG is a big power consumer, GTL is exothermic;
- Australia is a valued supplier of LNG as a clean direct energy and power generation source for our neighbours in the Asia Pacific, and Australia could become a valued supplier of GTL diesel as a clean transport fuel in the same markets where urban air pollution is a major problem and rapid economic growth is associated with rapidly growing demand for diesel and jet fuel.

When it comes to coal, we have over 600 years of known reserves.

That is why it is so important for us to get clean coal technology right and to look at converting some of our gas and coal to transport fuels like clean diesel.

Without turning our minds to the future, we will become increasingly reliant on oil imports from unstable parts of the world, producing only about 20 per cent of our needs by 2015 and burdening the nation's trade deficit with a $27 billion bill for oil and condensate.

Last year alone our import bill cost us almost $5 billion.

It is only with domestic oil production and new fuels industries like gas and coal to liquids that we can protect ourselves from global oil supply shocks in the future.

CTL and GTL Action Agenda

Following on from the National Energy Security Assessment, my Department will, as a result of its work with the various CTL and GTL proponents, prepare an action agenda to provide a policy framework for the industry.

The action agenda will follow similar pathways to the previous industry action agendas for LNG and downstream petroleum products.

Very little has been done on industry development for almost seven years when Senator Minchin, then Minister for Resources, appointed a GTL Task Force to investigate the feasibility and benefits of establishing a GTL industry in Australia.

The Task Force concluded that the benefits of a GTL industry would be of national significance to Australia.

Benefits include underwriting offshore gas supply infrastructure to bring forward new domestic gas pipelines to connect the national market, increased domestic gas competition and energising gas exploration.

Seven years of inaction is therefore too long.

The Task Force warned that while Australia could wait for the market to provide an incentive for the industry, once gas supply infrastructure and investment is sunk in other countries with incentives on offer today, those countries will serve as investment hubs for many years to come.

And that is exactly what is happening in Qatar, already one of Australia's toughest competitors in the LNG market and way ahead of us in GTL.

It is also five years since CSIRO's report, *The Energy and Transport Sector Outlook to 2020*, laid out its proposed strategy for Australia's transport future – a strategy that identified CTL and GTL as the keys to our future transport fuel security.

As I said before, good policy is about creativity and the contest of ideas.

I hope you will all work closely with my Department to develop a **CTL and GTL Action Agenda** that addresses industry barriers, the options to overcome them and a policy framework to build a sustainable industry for the future.

Australia needs a new generation of nation building industries and infrastructure – capitalising on our resource strengths and our competitive advantages, and unlocking their wealth for the Australian people.

And there is no better place to focus today than on our vast coal, natural gas and coal seam methane resources to enhance our export base and secure Australia's future fuel security at a time when consumers have never been more concerned about high petrol prices and increasing reliance on the Middle East.

Let me close by saying that no discussion about energy security can be had without climate change policy front and centre.

Clearly the greenhouse performance of individual fuels is a critical factor for the future.

GTL technologies – including those based on underground coal gasification like Linc's Queensland project – are comparable with existing refining technologies.

But most CTL projects will be dependent on carbon capture and storage.

I am pleased to say that the development of a legislative framework for carbon capture and storage is close to completion within my Department.

I expect the Government to consider it in the near future with stakeholder consultation planned for the second quarter.

The Government's **National Clean Coal Initiative** is also extremely important for CTL.

We are committing $500 million to a National Clean Coal Fund to develop and demonstrate clean coal technologies.

The Fund will provide:

- $75 million for a national clean coal research program, including $25 million for CSIRO;
- $50 million for a national carbon mapping and infrastructure plan;
- $50 million for a coal gasification research facility in Queensland; and
- $100 million for two post-combustion capture PCC demonstration plants in New South Wales and Victoria.

The remaining funding – around $225 million – will be used to support the demonstration of priority clean coal technologies, including coal-to-liquids projects.

On their own these are vitally important programs.

Taken together, they demonstrate clear strategic objectives that will position Australia to maximise the benefits of some of our most abundant and economically significant natural resources while ensuring energy security for the long term.

There is no doubt that climate change policy settings and other market arrangements will impact – and have already influenced – energy sector investment and operations.

The challenge is in meeting climate change targets while maintaining adequate, reliable and affordable energy.

This is why we have taken the steps we have – to study the problem through mechanisms such as the Garnaut Report and then formulate solutions.

Conclusion

Ladies and gentlemen, the coming years will present enormous energy security challenges for Australia.

Global instability and rising energy demand make energy security planning more complicated than ever.

I look forward to working with you to overcome these challenges and wish you every success in developing a successful Australian CTL and GTL industry.

Thank you.