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Domestic gas reservation – a significant cost to the nation's economy

The introduction of market interventions such as a Domestic Gas Reservation policy on Australia's east coast would come at significant cost to the nation's economic welfare, including a projected cost of \$6 billion in forgone Gross Domestic Product (GDP) by 2025, a new report has found.

The Deloitte Access Economics (DAE) report titled *The economic impacts of a domestic gas reservation* was commissioned by APPEA and released at the 2013 APPEA Onshore Gas Conference and Exhibition in Adelaide today.

The report finds:

- At a time when questions are being raised regarding the long-term outlook for the Australian economy and the sectors that will drive the nation's next phase of growth, the economic opportunity presented by Australia's vast gas reserves is a remarkable one;
- The resulting economic benefits will be widespread. Not only are the industry's economic linkages broader and deeper than commonly appreciated, but there are a variety of wider, welfare-enhancing economic spillovers that emanate from the industry's endeavours;
- Within this context, the introduction of a Domestic Gas Reservation (DGR) policy on the east coast of Australia would come at a significant cost to the nation's economic welfare;
- The impact of a DGR is to – in effect – place a simultaneous tax on domestic gas production and subsidy on domestic gas consumption. The result is that the economy forgoes export income in order to inefficiently subsidise domestic consumption. Like all taxes and subsidies, the DGR distorts economic decisions and generates an unequivocal economic loss – one which compounds over time as future investment decisions are affected;
- Against a scenario where production, investment and export decisions are not impeded, the introduction of a DGR on the east coast is projected to cost the Australian economy \$6 billion in forgone GDP at 2025. Any modest economic benefits to gas users are dwarfed by the losses emanating from foregone export earnings – losses not just in the gas sector but in related sectors like construction and trade; to households via reduced wages and employment opportunities; and to government via reduced tax receipts;
- Proponents of DGR fail to point out the economic cost of such a policy. Analyses undertaken by DGR proponents fundamentally fail to account for the policy's full economic impacts. When the flow-ons are analysed comprehensively – in an economy-wide context as per the DAE RGEM model – the economic losses are unequivocal;

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APPEA Chief Executive David Byers said: "In an advanced economy underpinned by competitive markets, such as Australia, one industry should not be required to subsidise a small number of activities in another industry.

"Consumption of Australian gas is forecast to surge over the next five years, with export consumption rising from about half of total production to as much as 80% over a period where overall demand is projected to treble.

"As the DAE Report notes, 'The benefits of freer markets and freer trade have been accepted by successive Australian governments and indeed by all developing economies of the world. The steady removal of market distortions has delivered significant economic benefits to the nation. A domestic gas reservation would only serve to reverse those gains.'

"Laws that dictate where and how gas can be sold invariably deter the very investment needed to develop Australia's abundant gas reserves. This in turn raises the risk that domestic supply will be compromised by a domestic gas reservation rather than assured.

"The best policy response to rising prices lies in bringing more gas to market – by reducing the green and red tape currently constraining new projects, rather than intervening through a domestic reservation policy or similar gas market interventions."

The report also finds that arguments in favour of a domestic gas reservation scheme are based on inappropriate economic modeling which is "partial in nature and does not account for the opportunity cost of the inputs used in domestic production".

The DAE report *The economic impacts of a domestic gas reservation* is available at www.appea.com.au.

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