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APPEA welcomes ERA call for removal of gas reservation policy

The Australian Petroleum Production & Exploration Association (APPEA) welcomes the Economic Regulation Authority's call for Western Australia's domestic gas reservation policy to be removed.

The ERA, which provides independent economic advice to government, says the policy imposes costs on the State economy which far outweigh any perceived benefits.

In a draft report to the State Government aimed at improving the efficiency, performance and productivity of the WA economy, the ERA says gas reservation:

- Increases reliance on subsidised gas prices;
- Discourages efficiency and technological innovation;
- Perpetuates the existence of industries that may not have a comparative advantage in WA at the expense of investment in other industries; and
- Discourages investment in gas projects, reducing the availability of gas for future domestic or international use.

APPEA Chief Operating Officer Western Region Stedman Ellis said: "The ERA report has once again confirmed APPEA's view that WA's gas reservation policy cannot be justified on the grounds of market failure.

"It is protectionism pure and simple.

"The impact of a domestic gas reservation policy 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 by big industrial users.

"Like all taxes and subsidies, the gas reservation policy distorts economic decisions and generates an unequivocal economic loss – one which compounds over time as future investment decisions are affected.

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“APPEA believes long-term energy security is best delivered through efficiently operating markets and by encouraging new entrants and competition, a view that is shared by other Australian governments that have considered and rejected the need for reservation policies.

“The ERA analysis has found that the removal of the gas reservation policy will result in sustainable gas prices, more competition and greater security of supply.

“Australia’s ability to develop new gas projects is already threatened by rising costs at home and growing competition abroad. Policies that dictate where and how gas can be sold represent a further barrier to investment.”

Mr Ellis said WA was experiencing a growing level of competition in the domestic gas supply market as new capacity came on stream, as demonstrated by the recent addition of the Devil Creek, Macedon and Red Gully domestic gas facilities.

“These projects proceeded because buyers were willing to commit to commercial terms that underpin the enormous investment required to develop and construct a gas processing facility,” he said.

“They have been driven by market forces, not by government intervention in the form of a reservation policy.

“The WA Government should heed the ERA’s advice and abolish its reservation policy and focus its efforts on attracting investment for new gas developments.”

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