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Gas market interventions can risk investment and supply

International evidence shows government interventions in oil and gas markets discourages investment in exploration and long-term supply and does not guarantee lower prices, according to a new EnergyQuest report commissioned by APPEA.

The EnergyQuest report, *Domestic Gas Market Interventions: International Experience – 2020 Update*, examined the gas market policies of 20 major gas-producing countries, accounting for more than 70 per cent of the world's gas production.

The key findings show vast differences in the effectiveness of natural gas markets that operate openly versus those with interventions such as price-setting and various forms of domestic gas reservation.

APPEA Chief Executive Andrew McConville said the independent analysis showed market-based energy policy is the optimal approach for ensuring future gas supplies at sustainable prices, and the consequences of reservation policy are harmful.

"When governments intervene in gas markets – through price controls or reservation schemes – the knock-on effect is a drying up of capital investment in exploration and production," Mr McConville said.

"Rather than improving gas supply or reducing prices, interventions can impede the very investment needed to bring on new supplies. A far more sustainable solution is to support investment that increases supply."

The report highlighted examples in Thailand, Malaysia, Argentina, Mexico, India and China where a lack of new supply projects led to gas shortages and, in some countries, the need to import more expensive gas to boost domestic supply.

Mr McConville said: "The overall lesson from these examples is governments should resist the temptation to intervene in gas markets, because the solution to lower prices and energy security is more supply, not more controls.

"International experience is that government interventions that attempt to reduce or control domestic wholesale gas prices, or cross-subsidise other industries, are often unsustainable and have numerous negative side-effects in terms of economic, energy and environmental policy.

"Clearly, the most effective solution for ensuring adequate gas supply at sustainable prices is to maintain an open and competitive market that attracts investment in new projects.

"Therefore, caution is needed when considering any regulatory interventions that could risk the attractiveness of Australia as an investment destination for oil and gas projects – these projects are essential for shoring up Australia's future gas supplies."

Mr McConville said Australia's oil and gas industry is fully committed to ensuring there is a secure, sustainable and competitive natural gas supply for households and businesses – and the sector takes its obligations to the domestic gas market very seriously.

"While sensible reforms can improve the efficiency of the domestic gas market and its operation, unnecessary market interventions – as the EnergyQuest report highlights – can adversely affect confidence and investment," Mr McConville said.

"So any decisions government makes to proceed with interventions in the market, like a national gas reservation scheme or possibly price controls to cross subsidise other less efficient industries, will significantly affect the industry's ability to attract new capital and capture the substantial growth opportunities available to the industry and the Australian economy.

"This will play a crucial role in determining if the industry can realise its full potential and whether the national economy benefits from new upstream oil and gas investment opportunities."

Some of the key findings from the EnergyQuest report include:

- In the US and Canada, wholesale gas prices are set by the market without government intervention. The combination of a competitive market and favourable geology has supported the phenomenal growth of shale oil (and associated shale gas) at low prices.

- Out of all the OECD countries (USA, Canada, Netherlands, Norway and the UK) examined by EnergyQuest, none have governments that intervene in domestic gas markets.

- Many non-OECD countries have policies aimed at controlling gas prices which artificially stimulate demand and restrict supply, leading to gas shortages, imports from other countries at high prices, and upward pressure on domestic gas prices.

- Australia's wholesale gas prices are lower than prices in countries where governments regulate gas markets, including Brazil, China, India, Malaysia.

- Peru is the only country that both exports gas and has domestic gas reservation. Investment in exploration has collapsed and raises doubts about the country's ability to replace supplies in the medium term.

Read the report

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