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Free market or free lunch?

While many in Australia's manufacturing sector continue to claim – despite mounting evidence to the contrary – that bail-outs and protectionism can support jobs and expansion, a new report concludes that the free market, rather than the free lunch, is the real driver of growth.

The independent analysis debunks myths perpetuated by gas reservation enthusiasts, by demonstrating that Australia is on the right path in its support of market-based energy policy and that the consequences of reservation policy are both negative and profound.

Domestic Gas Market Interventions: International Experience reviews gas market policies throughout North America (the US, Canada & Mexico), Europe (Netherlands, Norway & United Kingdom) and 14 non-OECD countries (Russia, China, India, Algeria, Egypt, Oman, Qatar, UAE, Indonesia, Malaysia, Thailand, Argentina, Brazil & Peru). These countries produced 74% of global gas supply in 2011.

The report finds:

- In the US and Canada, wholesale gas prices are set by the market without government intervention and that the combination of a competitive market and favourable geology has created some of the world's lowest gas prices;
- In the Netherlands, Norway and the UK, wholesale gas prices are set by the market and these countries' liberalised energy markets place downward pressure on gas prices; and,
- Many of the non-OECD countries have policies aimed at controlling gas prices. But the impact of these has been to artificially stimulate demand and restrict supply, leading to gas shortages, imports from other countries at high prices, and upward pressure on domestic gas prices. These policies are often associated with government ownership or control of downstream industries.

APPEA Chief Executive David Byers said: "The international experience clearly offers lessons for Australian policy-makers, but not the kind described by those calling for gas reservation.

"An examination of the real world experience shows energy policies generally reflect whether a country has a market economy or not, whether its industry is state-owned, and where it ranks globally in regard to economic development.

"Introducing gas reservation policy would do nothing to stimulate the exploration and development needed to deliver new gas supplies and put downward pressure on prices. In an advanced economy underpinned by competitive markets, such as Australia, one industry should not be required to subsidise the activities of another."

Domestic Gas Market Interventions: International Experience can be found at:
www.appea.com.au/policy/submissions-a-reports/2013.html

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The Australian Petroleum Production & Exploration Association represents the upstream oil and gas industry in Australia. APPEA member companies produce around 98 per cent of Australia's oil and gas.