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Media Release

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APPEA welcomes recognition from large energy user that gas reservation policy is not working

The Australian Petroleum Production & Exploration Association has welcomed comments in a report released by Fortescue Metals Group (FMG) that highlight the negative impacts of a domestic gas reservation policy.

APPEA's Chief Executive, David Byers, said the Deloitte Access Economics (DAE) report released by FMG today provides yet more support for the case against gas reservation.

"Earlier this month, WA's independent Economic Regulation Authority called for the domestic gas reservation policy to be rescinded because the economic costs it imposed far outweighed any perceived benefits," Mr Byers said.

"And now, FMG, one of the key members of the Domgas Alliance, has commissioned a report that acknowledges that gas reservation:

- Places a simultaneous tax on domestic gas production and a subsidy on domestic gas consumption;
- Increases the capital cost requirement for LNG producers and reduces the incentive for ongoing investment; and
- May act as a barrier to entry for new LNG players[1].

"It is an acknowledgement that market forces, not government intervention, should determine when and how Australia's gas should be developed.

"The DAE report commissioned by FMG instead argues for a more rigorous application of the existing retention lease system. In reality, it argues that the current system should be allowed to operate as it is

[1] DAE, *Fortescue Metals Group Western Australia gas sector analysis*, p. 32

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intended – that is, companies should be required to develop offshore resources when it is commercially viable to do so.

Mr Byers said the current retention lease framework already incorporates a rigorous approach to testing commerciality.

"The retention lease system provides the means by which governments can test the commerciality of a resource and if found to be commercial, require development.

"Retention leases are not granted or renewed automatically and governments have an interest (in the form of taxation revenue and job creation) in accelerating the development of Australia's gas resources.

"The system requires titleholders to maintain an active commitment in the relevant area, undertaking an agreed program of activities which would address the barriers to commercialisation for the duration of the title.

"Importantly, the system also recognises that oil and gas companies incur significant costs up-front in exploration, which is a high commercial risk activity with no guarantee of success. The industry's history in Australia shows that only one in 14 wells drilled has led to production.

"The retention lease framework is an important part of the Government's overall acreage management system that is designed to provide the incentives for identifying and developing Australia's oil and gas resources. We should be wary about calls to fix something that isn't broken.

"The release of the DAE report is timely as it comes during a prolonged period where we are seeing a dramatic fall in the level of petroleum exploration activity, and where additional costs have been placed on the industry through the imposition of cash bidding for selected exploration acreage.

"It is also noteworthy that the latest acreage release announced by the Federal Government today foreshadows a decline in the number of exploration wells that are proposed to be drilled along with the level of funds committed under the work program bidding system.

"Any changes to the retention lease system will exacerbate what is already a challenging framework.

"The sovereign risks that would arise from a substantial shift in retention lease policy were highlighted in a recent WA Parliamentary inquiry into floating LNG."

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