Remarks at the 2015 Australian Domestic Gas Outlook Conference*

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The gas industry is at an interesting juncture in Australian and indeed in global terms.

While much attention has been applied to the iron ore price and the coal price as key factors in the decline of Australia's terms of trade, and so slowing our national income growth, less attention has been devoted to the oil and the LNG price shifts.

The oil price fall is usually seen as one of the positive influences on domestic demand, perhaps encouraging households to consume more and so lift activity.

But its impact on the Asia-Pacific LNG price and, via that, on much-anticipated shifts in both export income and the domestic gas price are more intriguing than a simple good/bad conundrum might suggest.

For with iron ore, or coal, or indeed any other internationally-tradeable commodity in which Australia has comparative advantage, we would usually simply accept that the world price is the correct price; and that – once environmental and social risks are addressed effectively – development will be in our national interest.

But gas has apparently yet to be accepted as the same as other commodities.

Australia is a good source of price-competitive gas, both on-shore and off-shore. As a consequence, we have an asset that the world values and for which demand seems to be strong.

At a time when some other commodities are facing less certain demand outlooks, that is surely a positive.

*Speech to the 2015 Australian Domestic Gas Outlook Conference *Curbing red tape for energy production - creating regulation nirvana* in Sydney on 25 March 2015.

Moreover, the value of this asset is expected to rise, although not as much as might have been estimated as recently as a year ago.

And due to both volume and price rises, the development of this resource will provide both State and Federal governments with royalty and tax payments that should be of genuine value to budgets which may struggle with increasing services and capital expenditure obligations in the coming decade.

As citizens, therefore, we all have a strong interest in seeing development of gas resources proceed in a manner consistent with demand.

But as the prospect of strongly increasing exports of gas has firmed up with the completion of construction of large east coast terminals, the atmospheric is less positive than my earlier description might suggest.

A number of issues have arisen in gas supply and industrial user assessments of markets. As consequence when, in the middle of last year, the Productivity Commission did not have a full book of work in front of it, we decided to devote some of research capability to looking at the east coast gas market.

This gas market report will be published next week.

One of the risks with embarking on a six-month research project is that the factors that encourage you to look into the subject change. In this case, the size of significant price shifts has certainly changed; but the policy tension continues.

Our Report covers the suite of policy tensions – land use and community resistance, exploration moratoria, doubts about the science and questions over transmission capacity – and adds to it a model which allows the testing of the consequences of some variations to east coast gas policies.

Some of these policies – regulatory interventions for the most part – are quite evidently distortionary.

Moreover, some of the advocates have probably deeply underestimated what is likely to be needed to have their preferred effects. The scope and risks of intervention necessary to deliver higher levels of exploration, or force the release of apparently locked-up reserves, or reserve some current gas supply in order to hold down expected price increases – from our examination seem quite troubling.

For example, the Report will contain an estimate of the gas diversion required to deliver a price effect via an East Coast gas reservation. It's not a small number. It should make advocates of this approach think twice.

Moreover, once governments start down this path, it is hard to see a limit.

Like all models, ours is of course dependent on some assumptions.

Nevertheless, at the very least any advocate for further regulatory intervention should indicate which of the assumptions behind our model they might vary, if they seek to argue that regulatory intervention is desirable.

We could all then see the consequence of attempts, that don't occur with iron ore or coal even though we do produce steel and electricity for domestic consumption, to defy international prices.

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The research also looks at how to support increased supply – and particularly at laws related to land use.

We will indicate areas for improvement - not additional regulation but greater clarity of purpose.

An even more important message I'd like to put forward today, in advance of the report's release, is to suggest to those on the producer side that reliance on the law alone is necessary but probably not sufficient.

Increasingly today on-shore gas development will require community support. Not just land-owner support, community support.

The law focuses quite sensibly on the landowner. And the gas resource owner – the State – has also defined its requirements in law.

These are necessary conditions for development of the resource base. But in an environment where East Coast gas development is more intrusive than it was when centred on the Cooper Basin, the law is likely to be less the ultimate determinant of what is fair and reasonable behaviour and more merely the correct starting point.

What is sufficient will vary by location, circumstance and timing.

And because it is difficult to specify, it is doubtful that the law could or should be expanded to incorporate a concept like community support.

And consequently, diverting royalties back to regions is equally likely to be a blunt instrument that only serves to diminish the relationship that is needed – between producer and community.

This in turn suggests that negotiation - for example via undertakings, to draw on a concept familiar to another area of community interface, consumer law – might be a way to go.

Changes like this will require a better effort at realistic expectations and not just words.

More than the public language of community consultation. This language has been devalued. Cynicism will most likely greet any change that is not prepared to impose cost on producers.

And it is not wise to turn to governments to address this. Governments have their own problems with communities tired of hearing the standard language of consultation.

These commitments need to be owned and delivered by the parties present in the landscape each day.

So the logic is inexorable: understandings between communities and resource developers are going to be increasingly required if gas supply is to be used to offset gas price pressure.