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## **Hoarding of gas resources hurts WA industry and jobs**

A new report has exposed weaknesses in the current retention lease system that allow major oil and gas producers to sit on natural gas resources which could be being used to fuel domestic industry and protect Western Australian jobs.

The Deloitte Access Economics paper, commissioned by Fortescue Metals Group\*, details the rapid expansion in the number of retention leases being used by producers to warehouse natural gas fields for future LNG exports.

The DomGas Alliance has long argued that there are multiple policy measures to tackle the problem and a tougher “use it or lose it” stand from Canberra could open these resources up to supply domestic industry and help protect thousands of Western Australian jobs.

The Deloitte Access Economics report highlights that in 1990 less than 4% of the Commonwealth’s offshore gas titles were held under retention leases but by 2009 this figure had grown to more than 40%.

Despite legislation aimed at ensuring fields are developed within 15 years, around 25% of the land area that is held under retention leases had been held for longer than this period – with one title being held for 27 years.

The report has gone further by modelling the commercial viability of two reserves held under retention lease; modelling which proved they would be commercially viable for domestic supply.

DomGas Alliance Executive Director Matt Brown said there were no longer any excuses for Canberra not to act.

“It has long been accepted that our retention lease system allows LNG exporters to warehouse fields which could and should be directed to the domestic market,” Mr Brown said.

“This report highlights the weakness of our retention lease system in comparison to other nations. We’ve had Federal discussion papers on the issue and State Parliamentary inquiry reports which all point to the obvious shortcomings of the system which work to the favour of the big producers.

“The legislation says a renewal lease can only be granted if the field is not commercially viable but could become so within 15 years. This report bells the cat by showing that fields which have been granted retention leases are clearly commercially viable from a domestic supply perspective.

“There is no justification for Canberra to allow producers to sit on the fields when Western Australian industry is crying out for additional natural gas to help drive our economic growth and generate employment opportunities.

“As a starting point we need greater transparency in the retention lease process and greater external scrutiny of the claims being made by producers to justify their applications.

“If a producer claims a lease is not commercially viable then the market should be given an opportunity to contest that claim. This should include allowing greater input from domestic gas users to provide a more accurate picture of local demand and whether it can provide a reasonable rate of return for a potential producer.

“Ultimately if another producer believes it can bring a field to the domestic market they should be given that opportunity.”

The DomGas Alliance has also noted the report’s finding that “we would not recommend that the domestic reservation policy be abolished immediately.”

Mr Brown said the Alliance queried some aspects of the report but believed it would help reinvigorate the debate around potential abuses of retention leases.

“The report seeks to blame the domestic gas reservation policy for the fact that WA gas users are being asked to pay international prices for gas. Yet in another Deloitte’s report last year it was noted that prices on the East coast – where there is no reservation policy - would also rise toward international prices,” Mr Brown said.

“Domestic reservation policy has worked in bringing gas into the domestic market in Western Australia that otherwise would have been lost to the State. This remains the case.

“So while we don’t agree with some of the logic and general background presented by the report we remain convinced that the domestic gas reservation policy remains an effective safeguard for the tens of thousands of Western Australian jobs which rely directly or indirectly on natural gas.

“With our State reliant on natural gas for around 50 per cent of its energy needs, we should not be tinkering with this safeguard unless we are convinced there is an effective alternative; and one which works not only in theory but in the real world.”

**For further comment contact Matt Brown on 0419 813 171.**

*The DomGas Alliance represents major industrial users of natural gas in Western Australia; companies that employ thousands of Western Australians, drive regional development and support local communities.*

*\* Fortescue Metals Group is a member of the DomGas Alliance but this report was commissioned independent of that membership.*