Competitive gas, caring society can coexist

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A balanced resource tax in an open market would work, writes ***Tony Wood***

Last week's report by Grattan Institute, ***Getting gas right: Australia's energy challenge***, explained how a global gas revolution was creating major economic opportunities for Australia.

But with these opportunities come real challenges for our domestic gas industry and consumers.

An editorial in the Newcastle Herald suggested we were indifferent to the consequences of rational economic policy that pitted export earnings against pensioners "freezing in their flats".

This is a false choice for a modern society and it should be rejected.

Our report explains why supplying our gas to an energy-hungry world might lead to higher gas prices in Australia. Over the next few years, household gas prices in NSW could rise by more than $60 a year, adding to several years of big increases in gas and electricity prices. This would particularly hurt people on low incomes, who spend a higher-than-average proportion of their income on utility bills.

For the few businesses for whom gas is a major cost, the increases could be enough to tip them over the edge of survival.

A modern economy with substantial primary resources needs to carefully consider how it should exploit these resources for the benefit of the nation - and not just in the short term.

Economists point to countries such as Norway that have done this well. But they have criticised Australian governments for squandering this country's resources windfall through unsustainable tax cuts, handouts to voters, and propping up the inefficient automotive and submarine building industries.

So, what should governments do, if anything? The prospect of gas price increases linked to a new wave of LNG exports has triggered calls to reserve gas for domestic uses or to subsidise domestic prices to protect those who might be affected.

First, we need to be very clear that there is no shortage of gas in Australia to meet both domestic needs and exports. Reserving gas is simply not necessary. It may be hard to get that gas to where it is needed over the next few years.

Yet commercial factors, such as a lack of infrastructure, have created that problem and commercial processes should solve it. Governments can help by ensuring the gas market is as transparent and responsive as possible.

Our report highlights what actions they might take to do so.

Secondly, discounting gas is no different to discounting anything else - and Australian governments learned many years ago that this is a bad idea. Other countries in our region are still grappling with the financial burden to governments and taxpayers of subsidising electricity, gas, petrol, industry and even food.

Subsidies create inefficient industries that ultimately fail anyway. They also deter investment and that leads ultimately to higher prices, which subsidies are intended to prevent.

The alternative is to keep our markets open and ensure we get the best outcome for all Australians.

But we'd need an effective tax regime that does not sell Australians short. The best approach is a well-designed resource rent tax. The recent furore over Australia's minerals and petroleum resource rent taxes produced a poor result, in which many companies will not pay the tax for several decades. This should be fixed.

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Then, governments can decide what to do with the revenue the taxes collects. Broad discounts for domestic manufacturing or for all gas consumers are a poor choice. Much better is targeted support for those on low incomes or for businesses to make necessary adjustments.

We need globally competitive industries, whether LNG exporters, gas-consuming manufacturers or others. We also aspire to be a caring society. Australia has a long history of ensuring that those in need can afford essential services through targeted rebates and concessions.

Competitive industries and a compassionate society can go together. Rational economics is a far better option than the opposite.

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