

[Shortages](#) of gas [in the Australian market](#) have led to [calls](#) for the government to impose restrictions on gas exports. Energy industry executives [have responded](#) by saying that market interventions would create a “sovereign risk”, deterring foreign investors and buyers of Australian gas.

But this doesn't apply to Australia for a number of geographic and geopolitical reasons. We're on the doorstep of some of the largest gas importers in the world – and [gas is very costly to ship](#). Qatar, one of our major competitors, is [mired in a diplomatic standoff](#) with its neighbours, and Russian [gas negotiations with China](#) have broken down.

Read more: [Big gas shortage looming, but government stays hand on export controls](#)

To cap it off, Australia is negotiating a [mega free trade agreement](#) with Japan, China and South Korea (all major gas importers), among others. This makes it unlikely the federal government will do anything to upset the status quo.

What is sovereign risk?

When governments [default on debt](#) or confiscate private assets this creates concerns among foreign investors that their interests could also be affected by authorities. This is the heart of sovereign risk. It leads investors to charge higher interest rates to make the risk worth it, or forgo investment all together.

[Research](#) shows that these higher interest rates (called a “risk premium”) can destabilise financial markets and put pressure on local companies.

Why Australia doesn't face sovereign risk in the gas markets

Written by The Conversation

Textbook examples of actions that created sovereign risk are [the 1951 nationalisation of Iranian oil fields](#), Argentina's then president, Cristina Kirchner, [nationalising the country's largest oil producer](#) in 2012 and Venezuela [seizing a General Motors auto plant](#) this year.

However, recently [multinational companies have stretched the term sovereign risk](#) to include other government activities that have negative consequences for business profits. This could include tax increases and crackdowns, new regulations, or the removal of subsidies.

Under this broader definition, government interfering in the Australian gas market could be classified as a sovereign risk. However, to be realistic, nothing short of outright nationalisation of natural gas resources or retroactive price fixing would enable energy companies to successfully pursue legal remedies against the Australian government.

Australia is very competitive in the gas markets

In purely commercial terms, the Australian gas sector is more competitive than overseas competitors.

[Industry data](#) show that Asia is the largest market for LNG, importing 245 billion cubic metres of natural gas a year. Much of this goes to Australia's closest trading partners – China, Japan and South Korea. Only 40 billion cubic metres of this comes through pipelines, mainly through Central Asia.

In 2015-16, [Australia exported 37 million tonnes of LNG](#) with a value of A\$16.55 billion. Foreign buyers are unlikely to easily switch supplier, because of the [cost](#) of sourcing gas from the Middle East and declining production in several Asian nations. The Department of Foreign Affairs and Trade [projects](#) that about 90% of Australian LNG exports by volume will go to Japan, China and South Korea by 2018-19.

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On top of the geographic advantages, buyers also have geopolitical reasons to stick with Australia. In particular, the Qatari government is promoting [a diversification program](#) that will reduce exports. This is mainly due to a [diplomatic crisis](#) with its neighbours.

Read more: [To avoid crisis, the gas market needs a steady steer, not an emergency swerve](#)

Australia is negotiating the Regional Comprehensive Economic Partnership (RCEP), a [mega free trade agreement](#) between ASEAN and Japan, China, South Korea, India and New Zealand.

RCEP will lower trade barriers and improve market access for Australian exporters of goods and services, and for Australian investors. The three top natural gas net importers in Asia are participating in RCEP negotiations. Participating countries account for almost 60% of Australia's two-way trade, 18% of two-way investment, and over 65% of Australia's goods and services exports.

These numbers explain why Prime Minister Malcolm Turnbull is taking a very cautious approach to the domestic gas shortfall. Simply put, the foreshadowed export control mechanisms won't happen because of Australia's international trade and investment strategy and existing commercial commitments.

[Stealth trade protectionism](#) may bring short-term relief and quick electoral gratification. However, the quarantining of Australian gas supply is not realistic in the face of so many variables in the global market.

As a [recent ACCC inquiry](#) shows, the serious way forward to rein in the gas crisis appears to be more careful co-ordination of interstate domestic demand with LNG sales on international markets. A more sophisticated approach to market co-ordination and regulatory harmonisation

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at home and abroad promises a more balanced, long-term solution. In the meantime, consumers in eastern Australia will have to brace for steep increases in energy prices.

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