

The Australian

Battle over coal-seam gas is part of an escalating resource struggle

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IF you were taking bets on ideas likely to be complete doozies, anything supported by both the Nationals and the Greens would have to look a winner.

So Tony Abbott should have been cautious about buying into the stoush between farmers and gas developers. But he wasn't, which is worrying, as it suggests he needs greater discipline developing policy.

That said, the government's reaction, accusing Abbott of stymieing resource development, made little sense. After all, the objective should not be to maximise the size of the coal-seam methane industry, but to make the best use of our resources. And if using resources for one purpose clashes with their use in another, then the benefits from the first must be balanced against the costs to the second.

There is therefore nothing efficient about greater gas extraction if its value is less than the harm it imposes on farmers and rural communities.

That such issues of balancing competing demands have arisen is not surprising. Our history abounds with instances of resource booms generating conflicts as some parties seize the resources whose value has increased without taking account of the damage their actions impose on others.

During the 19th century, for example, dramatic improvements in transport and agricultural technology, along with rapidly growing British demand for wool, wheat and then meat, made Australian land vastly more valuable. The result was to push out the frontier of settlement, displacing, at devastating cost, the land's Aboriginal users.

Those users lacked recognised property rights that could protect their incumbency or secure them compensation. And while the coal seam methane disputes are hardly as dramatic in their consequences, they too hinge on whether property rights are properly defined.

The fact is that property is a bundle of rights, not all of which need to be assigned to the same party. In this case, farmers have rights over the topsoil; but rights to mineral resources beneath it are vested in the state, which can assign them as it chooses.

Thus separating the rights can have significant benefits. It allows specialisation, as farmers concentrate on exploiting agricultural rights, while other entities focus on minerals. It also allows rights to be defined on different scales: the efficient

size of a farm may bear little relation to that of the underlying mineral field. And by allowing rights to be allocated when demand arises, it helps the timely response to changes that expand the range of resources that can be put to productive use.

That rapid response is precisely what has happened, as a more than doubling in gas prices, combined with improvements in coal-seam methane technology, have led to a development frenzy. The corollary, however, has been mounting concern by farmers over harm to water and other resources, with the fact that some farmers are benefiting while others are not increasing the resentment.

Just how great the costs to farmers really are is uncertain. But even were they substantial, they could be ignored in the development decision. Had farmers rights over coal-seam methane that they could sell to developers, they could secure compensation for any harm, as well as some of the resulting profits.

It is simplistic to say, as the Prime Minister has, that giving farmers those rights would freeze the industry's growth. After all, so long as coal-seam methane's profits exceeded its costs to agricultural uses, farmers would have incentives to ensure it was exploited. Indeed, the outcome could still be too much development, if each farmer ignored the costs that a decision to sell imposed on other properties.

But that is not to deny that such a change would pose problems. Negotiating coal-seam methane extraction would become more costly, though that might be dealt with by defining standard conditions that applied in the absence of agreement. More important, reallocating rights now could create a dangerous precedent, as farmers secured benefits they had not originally paid for.

The greatest losers would be governments, which anticipate large rents from mining rights. In theory, those rents could be recouped by taxing the new owners; in practice, taxing developers, who mobilise few votes and are largely owned out of state, is politically easier than taxing farmers.

That difference is one reason governments keep the rights out of farmers' hands; and it is also why governments may allow development whose costs exceed its benefits. Similar conflicts over property rights arise in urban areas, where rising land prices have encouraged developers to promote higher density housing. That can be efficient, as it saves land by making more use of capital, in the form of taller structures.

But greater density can harm surrounding property values, for instance through increased traffic. As housing accounts for a large share of most homeowners' wealth, their incentives are to be very risk-averse in allowing such developments to proceed, especially as they get so small a share of any gains.

State governments, in contrast, have every incentive to cut deals with developers. The states are consequently only too willing to undermine homeowners' rights to resist zoning changes, allegedly so as to enhance efficiency.

But while giving homeowners controls over zoning does have costs, including NIMBYism, they are often less than those of inappropriate decisions by ministers and central planners. There are therefore no pat answers to these conflicts.

Adjusting property rights so those who get the benefits also face the costs is crucial. Ideally, those rights should be allocated to those with the most at stake. But that is rarely easy and not always sufficient. And even then, conflicts will only become more acute as our resources become more valuable and our population grows.

Resolving them as the Greens propose, stopping development altogether, is foolish.

And it would be foolish, too, to freeze current land use patterns, as some Nationals have suggested. But that hardly justifies ignoring the costs developments impose on existing users.

So good on Abbott for accepting that these are vital issues that need to be discussed.

Pity he did not raise them in a considered and methodical manner.

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