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How Can Australia's Proposed *Domestic Gas Reservation Scheme* Be Interpreted?

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Introduction

The Australian Government announced on 7 May 2026 the proposed domestic gas reservation scheme. The idea is to require gas exporters to supply a proportion - equivalent to 20% of exports of their total production - to the Australian market. The proposed system aims to put downward pressure on gas market prices, protect industrial and household consumers from price fluctuations, and prevent supply shortages. This paper picks up the issues of interest that come to mind immediately after the announcement and provides initial considerations.

From the remarks made by the ministers at the time of the announcement of the proposed scheme, the author suspects that the proposed scheme is based on the success of the existing gas reservation policy in Western Australia. In the new proposal, there is no expression that limits the application to LNG projects in the eastern half of the country, as the ADGSM (Australian Domestic Gas Security Mechanism) has done. Instead, the new proposal apparently includes in its scope LNG export projects across Australia, including Western Australia and the Northern Territory, as well as offshore LNG projects. The official announcement does not expressly limit the scope geographically. While this supports a nationwide interpretation, it should also be noted that several media reports and policy briefings emphasise east coast supply risks, suggesting that the final design may still differentiate by region. However, for projects that are already subject to the Western Australia reservation policy, there is a concern that the calculation will be complicated if the new federal government's 20% reserve obligation system is applied after July 2027. In addition, the new proposal stipulates that export contracts entered into before the announcement on 22 December 2025 (when the Australian Government's Gas Market Review recommended domestic gas reservation policy) will be respected, but the line between being respected and not being respected will also be an important concern.

The federal government held a consultation process for 30 days from 1 April 2026 to decide whether to activate the ADGSM in the year. The outcome is scheduled to be announced in mid-May.

- 1 The geographical scope of the application of the new system - potential application to LNG projects in Western Australia
 - 1.1 What is included in the announcement of the proposed domestic gas reservation scheme on 7 May 2026
 - 1.1.1 The federal government (three ministers) announced in a joint statement that it will introduce:
 - 1.1.2 Obligation for LNG exporters to supply gas equivalent to 20% of export volumes to the domestic market
 - 1.1.3 Effective from 1 July 2027
 - 1.1.4 Respecting export contracts entered into force before 22 December 2025
 - 1.2 No expressions limiting the scheme's application to the Eastern LNG projects or those LNG projects subject to ADGSM are included, but the announcement just says that the proposed scheme will "require gas exporters to supply a proportion of their total production to the Australian market - equivalent to 20 per cent of exports".
 - 1.3 Although early media reports have explained that the primary focus of the proposed scheme is on "east coast LNG exporters", no geographical specification is included in the government's official documents. Australia's largest law firm points to uncertainty regarding "how it will apply to LNG exporters at a national level (including the interaction with the existing West Australian domestic gas reservation policy)"¹. Although the basic idea of the proposed scheme is to include "nationwide LNG" in the scope, it would be a reasonable interpretation that how to handle LNG in other regions and offshore has not yet been decided.

¹ "Australia's gas reservation scheme" By John Hedge, Rebecca Whiting - Allens, Australia 7 May 2026, <https://www.allens.com.au/insights-news/insights/2026/05/australias-gas-reservation-scheme/>

2 Potential adjustment with Western Australia's existing 15% domestic gas reservation policy when the proposed federal scheme applied nationwide

2.1 "Double application and computational complexity" is one of the biggest unsolved issues in the new proposal. The reason for this is that the proposed federal reservation scheme is structurally different from the existing reservation policy in Western Australia.

	Western Australia's gas reservation policy	Australia's proposed domestic gas reservation scheme
Required reservation (vs LNG exports)	15%	20%
Calculation basis	Project life basis	It may be annually and a permit basis
Management	Agreement with the state	Federal export approval
Fulfilment	Project basis	Possibly on a corporate and nationwide portfolio basis

2.2 This will lead to questions about how the reserved volumes of the same project will be counted between the two schemes, whether the 15% already reserved under Western Australia's policy will be counted towards the 20% of the proposed federal scheme, and, in turn, how it will be offset.

2.3 Possible solutions are as follows:

2.3.1 Western Australia's LNG projects should be exempt from the proposed federal scheme, and the proposed federal scheme should be effectively applied only to the eastern part of the country;

2.3.2 The 15% reserved under Western Australia's policy should be recognized as part of the 20% requirement under the proposed federal domestic reservation scheme; or

2.3.3 A company's reservation requirement should be calculated on its nationwide portfolio basis.

3 The scope of existing contracts that should be respected

3.1 While the proposed scheme stipulates that export contracts entered into before the announcement on 22 December 2025 (when a domestic gas reservation policy is recommended) will be respected, where the line between being respected and not being respected will also be an important concern.

3.2 If an existing LNG export contract contains an extension option and is actually

extended, will the extended contract be treated as another existing contract and will it be exempt from the application of the proposed scheme? What will happen in the case of equity lifting (an arrangement in which the investor takes LNG production volumes in proportion to the investment)?

- 3.3 In the case of gas field development that backfills existing LNG projects, the author interprets that if the future supply envisaged in the gas field development is allocated to a new LNG purchase and sale contract rather than an existing contract, the new contract should be subject to the proposed domestic gas reservation scheme. In the proposed reservation scheme, the boundary line for creating domestic supply reservation obligations is not "at the time of an FID (final investment decision) of the project" or "whether it is an existing or a new project", but on "exports" and "new (unprotected) LNG sales". Therefore, it would be reasonable at this point to argue that even backfill gas fields would be subject to a 20% domestic reserve obligation under the proposed scheme if the gas is used for new LNG contracts signed after 22 December 2025.
- 3.4 If LNG sales are based on long-term contracts, for example, if a long-term contract is concluded for the export and sales of 1 million tonnes of LNG per year, 200,000 tonnes per year should be marketed in the domestic market. If production is strong and it is expected that one additional cargo of LNG will be produced, efforts should be made to sell separate volumes equivalent to an additional 20% of the LNG cargo to the domestic market. However, LNG exporters who think spot sales are possible may or should take that amount into account and make efforts to increase sales to the domestic market from the beginning.
- 3.5 Regarding the selling price of gas for the domestic market, government officials have expressed their expectation of "downward pressure" in the latest announcement. The author interprets that either in long-term contracts or in spot sales, the selling price is basically negotiated between the parties, and officials do not regulate or set an upper limit. However, the authorities may, in practice, scrutinise pricing behaviour when assessing whether domestic supply has genuinely been made available in the LNG export licensing review.

4 Comparison with other gas-producing countries (Egypt, Algeria, and Nigeria)

4.1 Indonesia is the other gas-producing country that explicitly has a gas reserve policy to secure domestic supply, although there are differences in the system. Egypt, Algeria, and Nigeria also increase or decrease the amount of gas that can be allocated for LNG as domestic gas demand fluctuates, although they do not implement explicit domestic reserve obligations.

Country	Explicit domestic reserve obligations (%)	Notes
Indonesia	Up to 25%	Legal domestic market obligation with price regulation
Western Australia	15% (existing)	Cumulative and flexible basis
Australia's proposed scheme	20% (proposed)	It may be on an annual basis, with details to be set later
Egypt	No	Domestic supply prioritised and effectively allocated
Algeria	No	Domestic supply prioritised with Sonatrach's discretion
Nigeria	No (domestic market obligation for oil)	LNG exports decrease with infrastructure restrictions

4.2 Egypt, Algeria, and Nigeria all do not have a statutory percentage reservation system, and as a result of prioritizing domestic demand, power generation, and social stability, LNG export volumes fluctuate under a de facto allocation scheme.

5 Future steps

Regarding future steps of the proposed domestic reservation scheme, the latest announcement says, "The Government will legislate the new domestic supply obligation and commence further targeted consultation on the final design details." It is understood that the government will proceed with legislation in parliament and consult on practical details, including the industry. Japanese stakeholders will also have opportunities to seek clarification and express their opinions.

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