Submission: Australia’s oil and gas reserves

The Senate Economics References Committee is conducting an inquiry into Australia’s oil and gas reserves. The Australia Institute welcomes the opportunity to make a submission to this inquiry highlighting our existing research on Australia’s oil and gas and how they relate to the inquiry’s terms of reference.

The Institute would welcome the opportunity to discuss research findings in further detail at any committee hearing, should there be one.

The Australia Institute has appended to this submission the full reports referred to below.

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Submission

a. arrangements used by other countries to maximise the benefit to the public of national oil and gas reserves

Norwegian sovereign wealth fund

In *Skatt: Treasure and tax in Australia and the Nordic countries,* Andrew Scott discusses the taxation policy and philosophy of Nordic countries, including lessons that Australia can learn from Norway's management of its natural resource endowments for the nation's long-term benefit. Adequate taxation of natural resources and a successful sovereign wealth fund have allowed Norway to avoid the resources "curse", whereas the growth of Australian mining put major pressure on non-mining exports.[1]

The benefits of a sovereign fund, like Norway's, to collect windfall profits from commodity price fluctuations include that they discourage pro-cyclical government spending. In other words, sovereign funds reduce the risk of amplifying the boom and bust cycle. They also prepare the country for when expendable resources run out.[2]

b. arrangement that could be considered to maximise benefit to the public of Australia's national oil and gas resources

Resource rent tax/super profit tax

A resource rent tax, as recommended by the Henry Report and implemented in modified form by the Gillard Labor Government, is a fair way of increasing revenues by taxing "super profits". Miners that receive super profits often do so because they happen to be mining a superior resource; Norway's experiences suggest that super profit taxes could be as high as 78% and still preserve the incentive to efficiently exploit the resource.[3] In Australia in the late 1970s and early 1980s (the time of the

[1] Scott (2019) *Skatt: Treasure and tax in Australia and the Nordic countries*, https://www.tai.org.au/content/australian-taxation-modest-global-standards

[2] Richardson (2010) *Minerals in the Australian Economy*, https://www.tai.org.au/content/minerals-australian-economy

[3] Richardson & Denniss (2013) *The MRRT should not be abolished*, https://www.tai.org.au/content/submission-mrrt-should-not-be-abolished

second most recent resources boom), the tax on *ordinary* profits was still higher than the proposed tax on *super* profits would be today.[4]

Exaggerated claims of benefits by proponents

The oil and gas industry often commissions reports that give the impression that oil and gas companies are large taxpayers. While the findings of these reports are often reported widely, the reports themselves are not always publicly available – and the models used to calculate the figures in the reports almost never are.

Australia Institute analysis of seven oil and gas industry commissioned economic reports compares the key tax claims in the commissioned reports to the actual federal tax paid. This table first appeared in *We'll pay tax … one day* (February 2018).

We'll pay tax … one day also reflects on major projects ("megaprojects") more generally, showing that project proponents have incentives to engage in "strategic misrepresentation", where they exaggerate the benefits and understate the costs of projects.

Table 1: Oil and gas industry commissioned economic reports

Company/project	Consultants	Full report available?	Key tax claims	Comments on actual federal tax paid
Offshore Projects				
Chevron - Gorgon/Wheatstone	ACIL Allen 2015	No	$338 billion in federal taxes to be paid from 2009 to 2040	Chevron paid no corporate tax in 2013/14, 2014/15 and 2015/16 despite reporting revenue totalling $9.2 billion for those three years
Inpex - Ichthys	ACIL Allen	No	$73 billion in total taxes to be paid from 2012 to 2050	Inpex reported revenue totalling $4.6 billion for 2013/14, 2014/15 and 2015/16 and paid only $0.1 billion in corporate tax for those three years
Shell - Prelude	Internal	No	$12 billion in taxes will be paid	Prelude will start production in 2018. Shell reported revenue totalling $47.5 billion for 2013/14, 2014/15 and 2015/16 and paid only $1.1 billion in corporate tax for those three years.
Onshore Projects				
Santos - Narrabri	ACIL Allen (2016)	Yes	$1.4 billion in company taxes to be paid 2017 to	Santos paid no corporate tax in 2014/15 and 2015/16 and only $3

[4] Richardson (2010) *Submission on mining taxation*, https://www.tai.org.au/node/1680

			2042 ($3.1b in total taxes to be paid)	million in corporate tax in 2013/14. Over those three years it reported revenue totalling $11.2 billion.
Coal seam gas development in Qld	ACIL Tasman (2012)	Yes	$228 billion in federal taxes to be paid from 2011 to 2035	Qld coal seam gasfields have produced less gas than forecast and the three Gladstone LNG have had larger writedowns indicating tax paid will be much less than forecast.
Arrow LPNG plant	AEC Group (2011)	Yes	$13.1 billion in federal taxes to be paid from 2013/14 to 2029/30	Arrow's parent company, Shell reported revenue totalling $47.5 billion for 2013/14, 2014/15 and 2015/16 and paid only $1.1 billion in corporate tax for those three years.
APPEA – Economic impact of shale and tight gas development in the NT	Deloitte Access Economics (2015)	Yes	$961 million increase in NT Government revenue over the period 2020-2040	Later report for NT Fracking Inquiry by ACIL Allen found "very high" probability of "failure to commercialise".

Sources and references in Campbell & Shields (2018) *We'll pay tax … one day*, https://www.tai.org.au/content/we%E2%80%99ll-pay-tax-%E2%80%A6one-day-submission-senate-inquiry-corporate-tax-avoidance

Exposure to international gas markets

There is no gas shortage in Australia. Gas production is about three times higher than gas consumption, an increase that has mostly occurred in the last five years. During that time, gas prices have *increased,* not decreased. Any further increase in gas production will not bring down gas prices, because LNG companies can simply export additional supply. In terms of costs and benefits, Australians pay higher gas prices but, since extractive companies have significant foreign ownership, many of the benefits of higher prices go overseas.[5]

[5] Ogge (2019) *Just to cap it off*, https://www.tai.org.au/content/end-gas-price-virtue-signalling-and-cap-exports

Figure 1: Australian gas production domestic v export

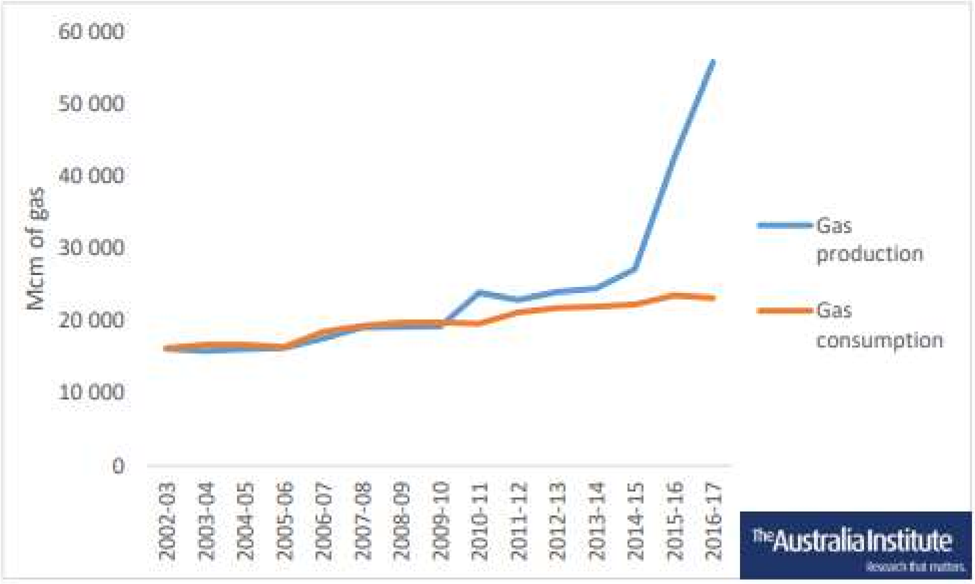
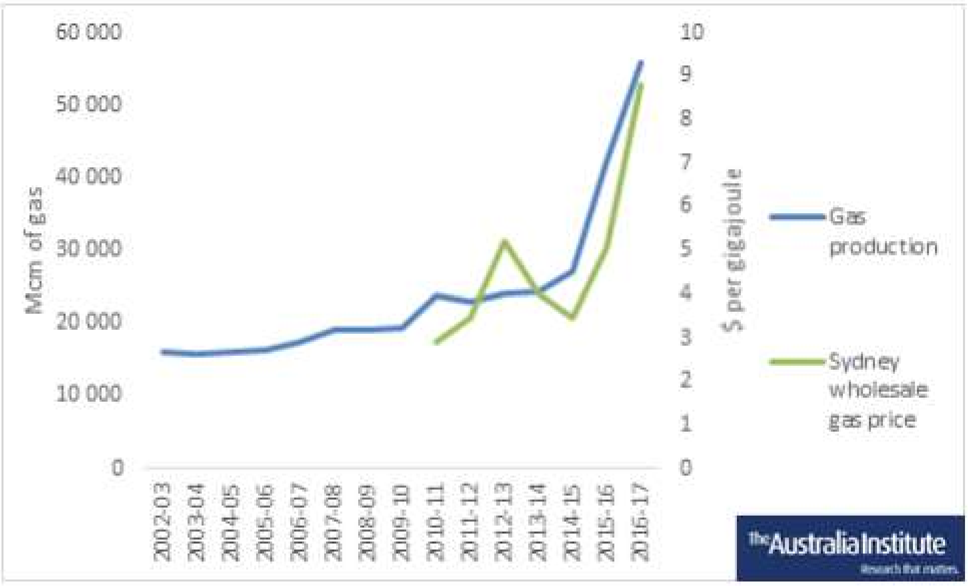


Figure 2: Australian gas production v price



Sources in Ogge (2019) Just to cap it off, https://www.tai.org.au/content/end-gas-price-virtue-signalling-and-cap-exports

Since higher production correlates with higher prices, not lower ones, reduced gas prices for Australians can only be achieved through regulation, not increased production.

Energy efficiency and fuel switching to electricity generated by renewables would help save gas. Capping LNG exports would ensure that this saved gas can be used by other Australians at cheaper prices, instead of simply exported.[6]

Petroleum Resource Rent Tax ("PRRT") not operating as intended

In 2017, Australia Institute research found that, despite huge increases in gas production, revenue derived from the exploitation of our resources is declining. Current arrangements around the PRRT are distorting investment and failing to deliver benefits to the Australian community. The paper recommended that the current 40 percent PRRT be increased to 70 percent on projects that have earned double the uplifted value of their capital outlays, along with other measures to rationalise the PRRT and make it work more effectively.[7]

A shift in the way the PRRT estimates transfer prices between a project's upstream extraction and downstream liquefaction to "netback only" pricing could increase revenue by $89 billion between 2023 and 2050.[8]

High public costs – state-level analysis

Reducing or eliminating losses is as important to maximising benefits as increasing gains. Unfortunately, the public benefits of oil and gas projects are often exaggerated and the costs minimised or ignored. Australia Institute research shows that these costs can be extensive and, in some cases, mean that exploiting oil and gas reserves is not of public benefit.

Many oil and gas projects are of limited public benefit and significant public cost.

Western Australia's plans to allow extraction of onshore unconventional gas will be costly, meaning that relatively less money will be raised from royalties than the existing low-cost offshore gas. New, expensive supply may set prices despite WA's reservation policy, and contribute to substantial increases in the cost of gas.[9]

If drilling for oil in the Great Australian Bight caused an oil spill, it could put more than 27,000 jobs at risk in South Australia, Victoria and Tasmania. Modelling commissioned by the oil and gas industry shows that Great Australian Bight drilling would not deliver

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[6] Ogge (2019) *Just to cap it off*

[7] Richardson & Campbell (2017) *Review of the Petroleum Resource Rent Tax*, https://www.tai.org.au/content/review-petroleum-resource-rent-tax

[8] Campbell (2019) *Petroleum Resource Rent Tax Gas Transfer Pricing Review*, https://www.tai.org.au/content/submission-prrt-transfer-pricing

[9] Campbell, Ogge, & Murray (2018) *The economic impacts of unconventional gas in Western Australia*, https://www.tai.org.au/content/economic-impacts-unconventional-gas-western-australia; Murray & Grudnoff (2018) *Volatile gas: Economics and gas in Western Australia*, https://www.tai.org.au/content/volatile-gas-economics-and-gas-western-australia

Petroleum Resource Rent Payments until 2047; total payments would be well under one percent of Commonwealth revenues in a given year. The industry might also require heavy subsidy; the WA government provided $8 billion in subsidies to the North West Shelf project.[10]

Be careful what you wish for shows that gas-industry funded studies of the economic and social impacts of gas development in Queensland's unconventional gas fields have found that local business stakeholders reported a deterioration in financial capital, local infrastructure, local skills, social cohesion and the local environment; unconventional gas has affected community wellbeing; unconventional gas has created few additional jobs, with negligible spillover jobs; and for every 10 unconventional gas jobs created, 18 agricultural jobs were lost.[11]

The development of unconventional gas in the Northern Territory would reduce energy security by linking the Territory to volatile east coast or world markets. Considerable costs could be incurred, while the benefits of royalties are likely to be modest.[12]

High public costs – subsidies

Australia has a history of significant subsidies for the oil and gas industry. Ending fossil fuel subsidies would remove a significant public cost. In 2014, *Mining the age of entitlement* found that state governments have provided billions of dollars supporting the mineral and fossil fuel industries, including $1.4 billion on gas processing and $0.8 billion for gas consumption over the six-year period that was studied.[13]

High public costs – climate change

Oil and gas extraction necessarily involves more greenhouse gas emissions – both in the course of extraction and when the fossil fuels are burned. The public costs of climate change are enormous, and must be considered in any consideration of the benefits of oil and gas extraction.

The Australia Institute report, *High carbon from a land down under,* shows that Australia is the world's third biggest exporter and fifth biggest miner of fossil fuels, by CO2 potential. However, our economy is more diverse and less fossil fuel intensive than many other exporters – giving us a greater opportunity to decarbonise our

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[10] Campbell, Browne, & Schultz-Byard (2019) *Oil in the Great Australian Bight*, https://www.tai.org.au/content/bight-drilling-threaten-27k-jobs-environment-new-report

[11] Ogge (2015) *Be careful what you wish for*, https://www.tai.org.au/content/be-careful-what-you-wish

[12] Campbell, Aulby, & Browne (n.d.) *Scientific inquiry into Hydraulic Fracturing in the Northern Territory*, https://www.tai.org.au/content/scientific-inquiry-hydraulic-fracturing-northern-territory

[13] Peel, Campbell, & Denniss (2014) *Mining the age of entitlement*, http://www.tai.org.au/content/mining-age-entitlement

exports. Australia's emissions are rising; apart from the land sector, they have never been higher.[14]

Existing gas projects are already contributing to Australia's emissions growth. Half of the national increase in emissions in the year to March 2018 is attributable to the failure of a single gas project, Chevron's Gorgon Project, to sequester its emissions.[15]

Any expansion of our oil and gas industry should occur only in line with our commitments under the Paris Agreement.

Index of reports

Campbell (2019) *Petroleum Resource Rent Tax Gas Transfer Pricing Review*, https://www.tai.org.au/content/submission-prrt-transfer-pricing

Campbell, Aulby, & Browne (n.d.) *Scientific inquiry into Hydraulic Fracturing in the Northern Territory*, https://www.tai.org.au/content/scientific-inquiry-hydraulic-fracturing-northern-territory

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Ogge (2019) *Just to cap it off*, https://www.tai.org.au/content/end-gas-price-virtue-signalling-and-cap-exports

[14] Swann (2019) *High carbon from a land down under*, https://www.tai.org.au/content/new-analysis-australia-ranks-third-fossil-fuel-export

[15] Swann (2018) *Gorgon-tuan Problem*, https://www.tai.org.au/content/gorgon-tuan-problem

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