

Offshore Petroleum and Greenhouse Gas Storage Amendment (Benefit to Australia) Bill 2020

Submission to the Senate Economics Legislation Committee

Offshore oil and gas industries contribute little to the Australian economy in terms of tax revenue or employment. Many projects represent a net cost to the Australian community, as subsidies, cleanup costs, environmental impacts and resource depletion outweigh the relatively small tax and employment benefits. This bill should be supported as it could assist in ensuring the Australian community gains some benefit from offshore oil and gas development.

Liam Carter
Hannah Melville-Rea
Rod Campbell

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Level 1, Endeavour House, 1 Franklin St
Canberra, ACT 2601
Tel: (02) 61300530
Email: mail@australiainstitute.org.au
Website: www.australiainstitute.org.au
ISSN: 1836-9014

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Summary

The Australia Institute is pleased to support this bill, which aims to ensure that offshore oil and gas development is constrained to that which provides a net benefit to the Australian community.

While politically influential, the offshore oil and gas industry contributes little to the Australian economy in terms of tax revenue or employment. Many offshore oil and gas projects represent a net cost to the Australian community, as subsidies, cleanup costs, environmental impacts and resource depletion outweigh the relatively small tax and employment benefits.

Meanwhile, most Australians are in favour of an economic recovery powered primarily by renewable energy and for multinational oil and gas companies to help pick up the tab on climate disaster costs. Australia Institute research indicates that, under current policy settings, many offshore petroleum projects do not benefit Australians overall.

Introduction

The Australia Institute welcomes the opportunity to make a submission to the Senate Economics Legislation Committee in support of the *Offshore Petroleum and Greenhouse Gas Storage Amendment (Benefit to Australia) Bill 2020*.¹ Senator Pauline Hanson has put forward the Bill, which would amend the object clause of the *Offshore Petroleum and Greenhouse Gas Storage Act 2006*.

The Bill seeks to ensure that “the exploitation of offshore petroleum and greenhouse gas substances is for the benefit of the Australian community”. With no other changes suggested, the Bill does not substantively affect the role of the National Offshore Petroleum Titles Administrator or the National Offshore Petroleum Safety and Environmental Management Authority. The Bill instead aims to create an overarching commitment to ensuring that the exploitation of natural resources is for the benefit of the Australian community.

This is an admirable aim and one that, in an ideal world, would not need to be written into Australian legislation. Unfortunately, in the real world, many offshore oil and gas projects impose costs and risks on the Australian community that are unlikely to be offset by economic benefits. Australia lags far behind global standards when it comes to harnessing the economic benefits of oil and gas production, while environmental impacts and taxpayer costs can be considerable. As will be explained below, the current and historical legislative frameworks and policy settings of the Commonwealth Government have allowed oil and gas companies to make immense profits from the exploitation of Australian resources whilst making a relatively minor contribution to the national budget and to employment.

¹ Parliament of Australia (2019-2021) *Offshore Petroleum and Greenhouse Gas Storage Amendment (Benefit to Australia) Bill 2020*, https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/OPGGSABenefittoAus

How offshore oil and gas present a net cost to Australians

RISKS OF OFFSHORE OIL & GAS

Offshore oil and gas, as it currently operates, imposes major costs and risks on Australia. Each project's potential harms must be accounted for and if they outweigh the project's benefit to the Australian community, it should not go ahead.

In particular, the following physical risks should be considered in any assessment of community interest.

- a. **Climate change.** Australia's offshore oil and gas industry contribute significantly to global climate change. Australia is arguably the largest exporter of liquified natural gas (LNG), and globally the third largest exporter of fossil fuels in terms of embedded emissions.² While gas is frequently cited as a cleaner "transition" fuel to move away from coal, at most, only 8% of required emissions reductions can come from gas-coal displacement.³ Looking towards the future, the Australian Government's proposed fossil gas projects alone represent an annual climate impact of more than half of Australia's annual emissions.⁴ Thus, a clean energy transition must come from renewable energy. Australia is already feeling the impacts of the climate crisis, including from bushfires and mass coral bleaching, and the economic contribution of any offshore oil or gas project should be evaluated against its climate impacts.
- b. **Offshore oil rig abandonment.** The decommissioning of the Northern Endeavour floating production storage facility as a result of it being riddled with rust and at risk of a major accident⁵ demonstrates the costs of offshore oil rig abandonment. While the true costs have not been disclosed, reports estimate costs going into the hundreds of millions.⁶ Further, the cost of decommissioning Australia's offshore oil and gas infrastructure over the next 40 years is conservatively estimated to be over

² Swann (2019) *High Carbon from a Land Down Under*, <https://australiainstitute.org.au/report/high-carbon-from-a-land-down-under-quantifying-co2-from-australias-fossil-fuel-mining-and-exports/>

³ International Energy Agency (2019) *The Role of Gas in Today's Energy Transitions*, <https://www.iea.org/reports/the-role-of-gas-in-todays-energy-transitions>

⁴ Swann (2020) *Weapons of gas destruction*, <https://australiainstitute.org.au/wp-content/uploads/2020/12/Weapons-of-Gas-Destruction-WEB.pdf>

⁵ Iggulden (2019) *Taxpayers could face \$200m bill if buyer cannot be found for rust-riddled oil platform*, <https://www.abc.net.au/news/2019-11-11/offshore-oil-rig-timor-sea-operations-cease-environment-safety/11691040>

⁶ Milne (2020) *Northern Endeavour debacle hits \$209M with much more to come*, <https://www.boilingcold.com.au/northern-endeavour-debacle-hits-209m-with-much-more-to-come/>

\$40 billion, some of which will likely be picked up by the taxpayer.⁷ While there is little precedent for closing down offshore oil and gas infrastructure in Australia, the country has more than a century of experience in decommissioning onshore mining projects. Australia already has a poor record for rehabilitating mines, with 60,000 currently abandoned mine sites. While many of Australia's abandoned mines are legacy sites, modern mines are abandoned every year in Australia.⁸ Without strong regulation and enforcement, offshore oil and gas will follow this pattern in the decades to come. Therefore, the full life-cycle of offshore oil and gas must be taken into account when assessing its costs to the Australian community.

Chevron's Gorgon LNG project is a clear example of a project that has significant net costs to the Australian community. Despite \$60 million taxpayer subsidy to its carbon capture and storage project, Gordon has released millions of tonnes of CO₂ that were meant to be sequestered. In 2017, this failure represented half of the national increase in emissions, and yet appears to have resulted in no penalty.⁹ Gorgon is an ongoing, multi-decade project that continues to pollute Australia,¹⁰ while paying so little tax that Chevron's consultants did not bother to model petroleum resource rent tax (PRRT) payments.¹¹

This Bill could help to avoid repeating such mistakes if it leads to the adoption of a net benefit test or national interest test for offshore oil and gas development.

OIL & GAS COMPANIES PAY LITTLE TAX

In addition to physical hazards, our analysis shows that the economic contribution of oil and gas to Australia is small. Oil and gas reserves across Australia and offshore are owned by the Crown, that is to say state and territory governments and the Commonwealth Government. Many oil and gas companies are subject to the Commonwealth Government's PRRT. The PRRT is the primary mechanism for collecting revenue from oil and gas companies in return

⁷ Khan (2018) *Decommissioned rigs: Precious marine habitats or giant lumps of ocean waste?*, <https://www.abc.net.au/news/science/2018-06-13/decommissioned-rigs-precious-marine-habitat-or-more-ocean-waste/9833084>

⁸ Unger et al (2012) *Mapping and Prioritising Rehabilitation of Abandoned Mines in Australia*, https://www.researchgate.net/publication/236900961_Mapping_and_Prioritising_Rehabilitation_of_Abandoned_Mines_in_Australia/; Campbell et al (2017) *Dark side of the boom. What we do and don't know about mines, closures and rehabilitation*, <https://australiainstitute.org.au/report/dark-side-of-the-boom/>

⁹ Swann (2018) *Gorgon-tuan Problem*, <https://australiainstitute.org.au/wp-content/uploads/2020/12/P635-Gorgon-tuan-Problem-Web.pdf>

¹⁰ Young (2021) *WA's Gorgon project fails to deliver on pollution deal, adding millions of tonnes of carbon a year*, <https://www.smh.com.au/national/millions-of-tonnes-of-carbon-added-to-pollution-as-gorgon-project-fails-capture-deal-20210215-p572na.html>

¹¹ ACIL Allen (2018) *Economic contribution of Chevron in Australia*, <https://australia.chevron.com/-/media/australia/publications/documents/acil-allen-report-snapshot.pdf>

for the exploitation of Australia's oil and gas resources, although some state-based royalty arrangements also exist.

Australians have an exaggerated view of the economic contribution of the oil and gas industry. On average, Australians believe that the oil and gas industry (via the PRRT) contributed 10.8% to the Commonwealth budget for the 2018–19 financial year (excluding those who said they do not know).¹² In reality, the PRRT contributed around 0.2% to the Commonwealth budget, \$1.15 billion of the total \$485 billion,¹³ meaning that Australians overestimate the oil and gas industry's contribution to Commonwealth revenue by a factor of forty-six.

The oil and gas industry pays a small amount of tax overall, and many large international companies pay no tax at all in most years, despite profiting from the exploitation of Australian resources. In other words, they receive a resource without paying its owners, the Australian public. Projects that provide no economic benefit to the community should be screened out and rejected under changes that could accompany the passage of this Bill.

While many factors influence the revenue raised from oil and gas companies, the current PRRT mechanism is fundamentally broken. One partial remedy to this has been proposed by The Australia Institute previously, in a submission to the review of transfer pricing arrangements in 2019. 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 2050.¹⁴

¹² Quicke and Bennett (2020) *Climate Of The Nation 2020*, p 18,

<https://australiainstitute.org.au/report/climate-of-the-nation-climate-change-concern-hits-82/>

¹³ Commonwealth Government (2020) *Budget Paper No. 1: Budget Strategy and Outlook 2018-19*, Statement 4: Revenue

¹⁴ Campbell (2019) *Petroleum Resource Rent Tax Gas Transfer Pricing Review*,
<https://australiainstitute.org.au/report/submission-prrt-transfer-pricing/>

Table 1: Income and company tax paid by oil and gas companies in Australia 2018-19

Company	Total Income (\$)	Taxable Income (\$)	Tax Paid (\$)
Woodside Petroleum Ltd	8,199,321,733	1,991,703,841	0
Sinopec Oil and Gas Australia Pty Ltd	370,722,823		0
Shell Energy Holdings Australia Ltd	5,531,026,873	318,645,923	0
Santos Limited	4,360,612,850	8,328,076	0
<i>Santos WA Energy Holdings Pty Ltd*</i>	<i>961,699,883</i>	<i>37,961,838</i>	<i>3,112,393*</i>
QGC Upstream Holdings Pty Limited	3,985,352,867		0
Petronas Australia Pty Limited	1,107,168,028		0
Origin Energy Limited	15,894,540,753	634,652,763	179,955,804
Kogas Australia Pty Ltd	667,825,073		0
ConocoPhillips Australia Gas Holdings Pty Ltd	1,592,059,105	29,214,658	0
CNOOC Gas and Power (Aus) Investment Pty Ltd	1,768,560,195		0
<i>CNOOC Australia Energy Capital Management Pty Ltd*</i>	<i>332,246,043</i>	<i>117,661,600</i>	<i>35,298,480*</i>
Chevron Australia Holdings Pty Ltd	11,986,037,153	900,117,295	0
Arrow Energy Holdings Pty Ltd	338,460,793		0
ExxonMobil Australia Pty Ltd	13,293,222,200		0

Source: ATO (2020) *2018-19 Report of Entity Tax Information*,
<https://data.gov.au/data/dataset/corporate-transparency/resource/827f68ea-83c0-440e-bb6d-4118644b7efd>

*These companies are subsidiaries or affiliates of larger entities. While they have contributed to Commonwealth revenue, consideration should be given to the much larger income and non-payment of tax by their associated companies.

International comparisons on revenue raising

While some nations rich in oil and gas choose to institute an effective taxation mechanism in order for their people to receive the benefit of resource exploitation, Australia lacks such a system.

In 2019 Australia overtook Qatar, on an annualised basis, as the world's single largest producer of Liquid Natural Gas (LNG).¹⁵ Even excluding the profits derived from state owned oil and gas companies, Qatar raises around \$26.6 billion from the export of LNG.¹⁶

¹⁵ Macdonald-Smith (2020) *Australia beats Qatar to become world's No. 1 LNG exporter*,
<https://www.afr.com/companies/energy/australia-finally-claims-lng-crown-from-qatar-20200106-p53p4h>

¹⁶ Ward (2017) *Tax Justice Network – Australia: Submission to Senate Standing Committee on Economics – Inquiry into Corporate Tax Avoidance*, p 2

In contrast, Australia raised just over \$1 billion from the PRRT in 2018–19.¹⁷

In July 2021, The Australia Institute’s Nordic Policy Centre will publish a book including a whole chapter on resource taxation and sovereign wealth funds in Australia and Norway.¹⁸ Another excellent resource on this topic is Paul Cleary’s book *Trillion Dollar Baby*.¹⁹

OIL & GAS CREATE FEW JOBS

Senator Hanson, in her second reading speech, mentioned that, “[the Reserve Bank] told me integrated gas projects had done a lot for the measures of investment, and GDP but little for jobs.” Australia Institute research also finds that fossil fuels do not contribute significantly to Australian employment.

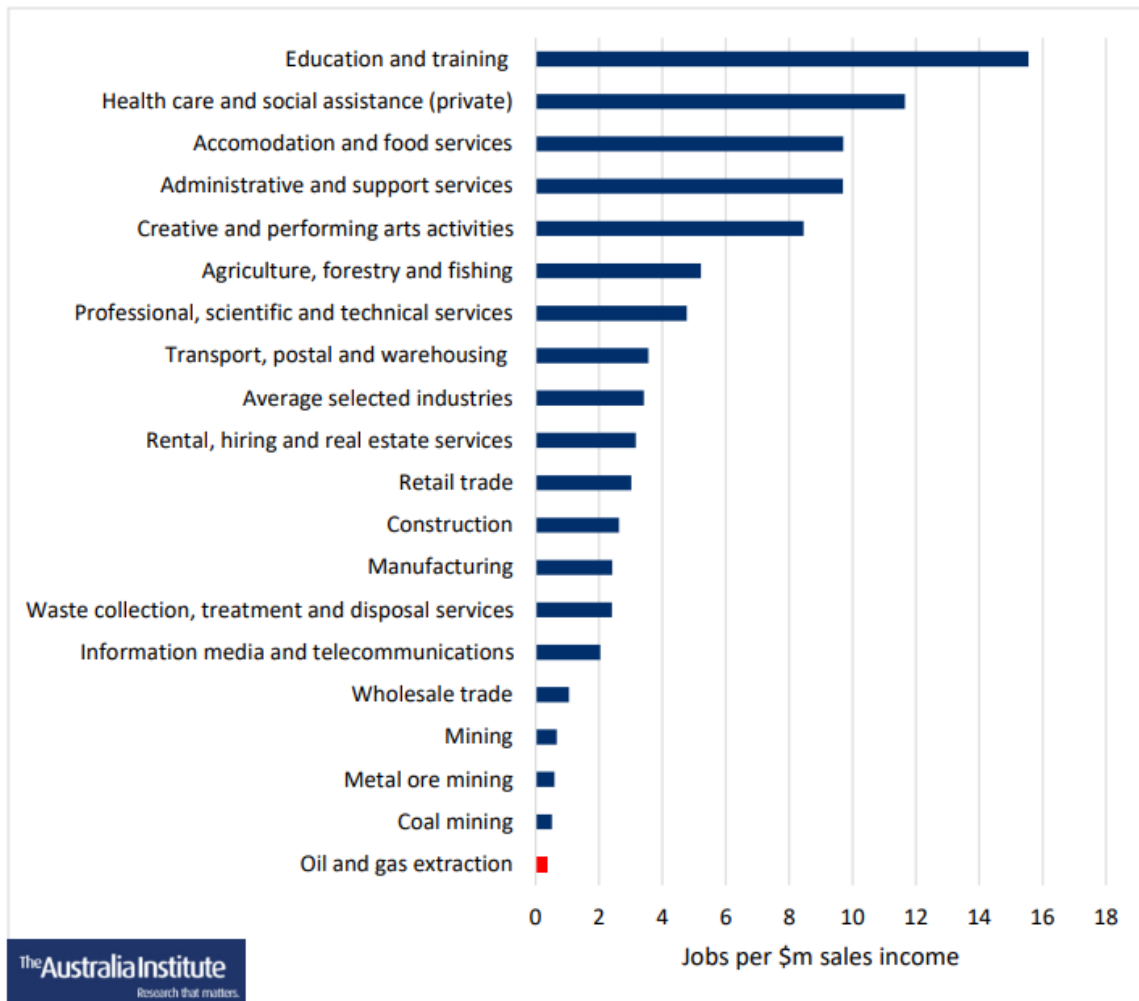
Oil and gas extraction as an industry has one of the lowest job intensity rates in Australia. When industries are examined for the amount of jobs relative to sales income, oil and gas extraction produces less jobs than top performing industries such as education and training by a factor of around fifteen, as demonstrated in Figure 1.

¹⁷ ATO (2020) *2018-19 Report of Entity Tax Information*, <https://data.gov.au/data/dataset/corporate-transparency/resource/827f68ea-83c0-440e-bb6d-4118644b7efd>

¹⁸ Scott and Campbell (2021) *The Nordic Edge: Policy possibilities for Australia*, <https://www.mup.com.au/books/the-nordic-edge-paperback-softback>

¹⁹ Cleary (2016) *Trillion Dollar Baby: How Norway Beat the Oil Giants and Won a Lasting Fortune*, <https://www.blackincbooks.com.au/books/trillion-dollar-baby>

Figure 1: Job intensity of selected Australian industries (jobs per \$m sales income)



Source: ABS (2020) 81550DO002_201718 Australian Industry, 2017-18,
<https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/8155.02017-18?OpenDocument>

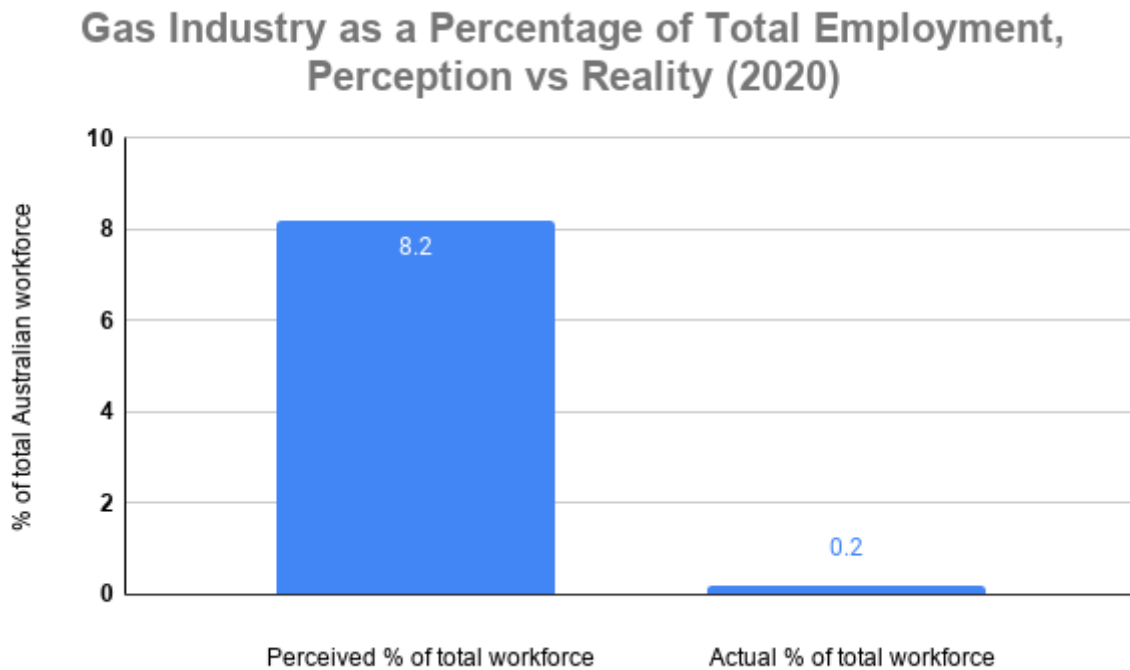
Meanwhile, Australians overestimate gas industry employment levels as forty times higher than they actually are.²⁰ Australians on average believe that gas mining and exploration employs 8.2% of the total workforce – however in reality it employs only 0.2% of the 12.5 million people employed in Australia in the year to May 2020,²¹ as shown in Figure 2. Thus, Australians perceive the gas industry as a far greater employer than it actually is.

²⁰ Quicke and Bennett (2020) *Climate Of The Nation 2020*, p 18,

<https://australiainstitute.org.au/report/climate-of-the-nation-climate-change-concern-hits-82/>

²¹ Average figure for oil and gas extraction employment for year to May 2020 in ABS (May 2020) *Labour Force, Australia, Detailed, Quarterly, Table 06*. Separate petroleum exploration data is only available in five-yearly census data. The 2016 Census found 1,997 people worked in petroleum exploration.

Figure 2: Australians' skewed perception of gas industry employment



Source: Quicke and Bennett (2020) *Climate Of The Nation 2020*, p 18,
<https://australiainstitute.org.au/report/climate-of-the-nation-climate-change-concern-hits-82/>

The minimal employment created by offshore oil and gas projects should be a factor considered in national interest tests or community benefits tests that could be adopted if this bill is passed.

“Benefit to Australia” - Climate compensation from fossil fuel companies

In addition to a lack of meaningful contribution to the Commonwealth budget or to relative employment, oil and gas companies are directly responsible for worsening the climate crisis. The greenhouse gasses emitted by these companies are causing temperatures to rise and intensifying the impacts of disasters.

The costs of climate change are primarily paid by Australian businesses and households via uninsured losses or rising insurance premiums.²² The 2020 Australian bushfires, which are now widely accepted as having been worsened by the effects of climate change, were Australia’s most expensive natural disaster, with the total cost estimated to be up to \$100 billion.²³

Polling by The Australia Institute shows that there are high levels of support across the Australian community for fossil fuel companies to pay for the cost of climate change disasters. When asked who should primarily pay the costs of preparing for, adapting to, and responding to global warming impacts, half of respondents (50%) say fossil fuel producers (coal, gas and oil companies) should primarily pay, up five percentage points from 45% in 2019.²⁴ Across all political parties, more people think fossil fuel producers should pay for climate disasters.

To help pay some of the cost of increasing climate disasters, The Australia Institute has proposed a Climate Compensation Fund, funded by a levy on Australian coal, gas and oil exports. This proposal is popular amongst Australians.²⁵ Such a levy should be considered as a part of a net benefit test or national interest test under changes that could accompany this bill.

²² Quicke and Bennett (2020) *Climate Of The Nation 2020*, p 25

²³ Read & Denniss (2020) *With costs approaching \$100 billion, the fires are Australia’s costliest natural disaster*, <https://theconversation.com/with-costs-approaching-100-billion-the-fires-are-australias-costliest-naturaldisaster-129433>

²⁴ Quicke and Bennett (2020) *Climate Of The Nation 2020*, p 26

²⁵ Ogge (2019) *The National Climate Disaster Fund*, <https://australiainstitute.org.au/report/the-national-climate-disaster-fund/>

Conclusion

Australia is arguably the largest exporter of liquid natural gas in the world. Companies that extract Australian oil and gas make significant profits, however, as a nation we see very little of that wealth pass into either the Commonwealth's or the community's hands. Where other nations such as Qatar and Norway harness their natural resources for the benefit of their people, through sovereign wealth funds, effective taxation regimes or public-private joint venture programs, benefits from Australian resources currently flow offshore.

Meanwhile, Australians massively overestimate the role of the oil and gas sector in terms of its contribution to Australian employment and revenue paid to the Commonwealth. This is no indictment on the Australian people, but it indicates that oil and gas companies benefit from the perception that they contribute to the nation's economic wellbeing to a far greater extent than they actually do. This perception is fostered in part by commissioned economic reports that overstate the benefits and understate the costs of the oil and gas industry.²⁶

The proposed amendment put forward by this bill is timely because the Australian Government is pursuing a 'gas-fired recovery' in the wake of the coronavirus pandemic. The government has already provided subsidies and regulatory support for the industry to encourage exploration of five new gas basins. Further support for gas exploration is expected to be announced in the Federal Budget on 4 May 2021. Australia Institute polling indicates that only 12% of Australians support a recovery based on investment in gas.²⁷

The spirit of this Bill, to "make the benefit of the Australian community a guiding principle in the interpretation of the [*Offshore Petroleum and Greenhouse Gas Storage Act 2006*]" is to be commended. In her second reading speech, Senator Hanson stated: "We need all decisions to be made with the good of the Australian community in mind."²⁸

The Australia Institute agrees with this sentiment, while noting that the good of the Australian community would be greatly benefitted by a concerted shift away from oil and gas and significant investment in renewable energy.

²⁶ Campbell and Shields (2018) *We'll pay tax...one day: Submission to Senate Inquiry into Corporate Tax Avoidance*, <https://australiainstitute.org.au/report/well-pay-tax-one-day-submission-to-senate-inquiry-into-corporate-tax-avoidance/>

²⁷ In contrast, the majority of Australians (59%) would support an economic recovery powered primarily by investment in renewable energy: Quicke and Bennett (2020) *Climate Of The Nation 2020*, p 4.

²⁸ Hanson (2020) *Offshore Petroleum and Greenhouse Gas Storage Amendment (Benefit to Australia) Bill 2020 Second Reading*, p 7084, https://parlinfo.aph.gov.au/parlInfo/genpdf/chamber/hansards/f2c5c3be-0fb8-4db1-9392-dba6ced55207/0146/hansard_frag.pdf;fileType=application%2Fpdf