

# War gains: LNG Windfall Profits 2022

Mark Ogge  
September 2022

## SUMMARY

---

Energy prices spiked worldwide following Russia's invasion of Ukraine and the resulting restrictions on Russia's gas exports. This has in turn increased the value of Australian LNG exports and the profits of LNG companies. We estimate the war related windfall gain to LNG companies in 2021-22 at between \$26 billion and \$40 billion.

Despite widespread calls by economists and commentators to tax this windfall gain, the Australian Government is yet to do so. At least \$20 billion could be raised by a tax on war related profits. This is enough to fund the Australian Government's entire \$20 billion investment in its *Rewiring the Nation initiative* to modernize Australia's electricity grid and would leave funds to compensate Australian households and businesses unfairly impacted by spiralling energy costs, largely because of the behaviour of the LNG producers concerned.<sup>1</sup>

## INTRODUCTION

---

Global energy prices spiked following Russia's invasion of the Ukraine in late February 2022. Prices for Australian liquified natural gas (LNG) exports doubled from an average of AUD\$7.5 per gigajoule (GJ) in 2020-21 to AUD\$16.2 per GJ in 2021-22 even though the invasion occurred late in that financial year.<sup>2</sup> The same price is expected to average AUD\$19.9 through 2022-23.

---

<sup>1</sup> ACCC (August 2022) Gas inquiry July 2022 interim report, <https://www.accc.gov.au/publications/serial-publications/gas-inquiry-2017-2025/gas-inquiry-july-2022-interim-report>

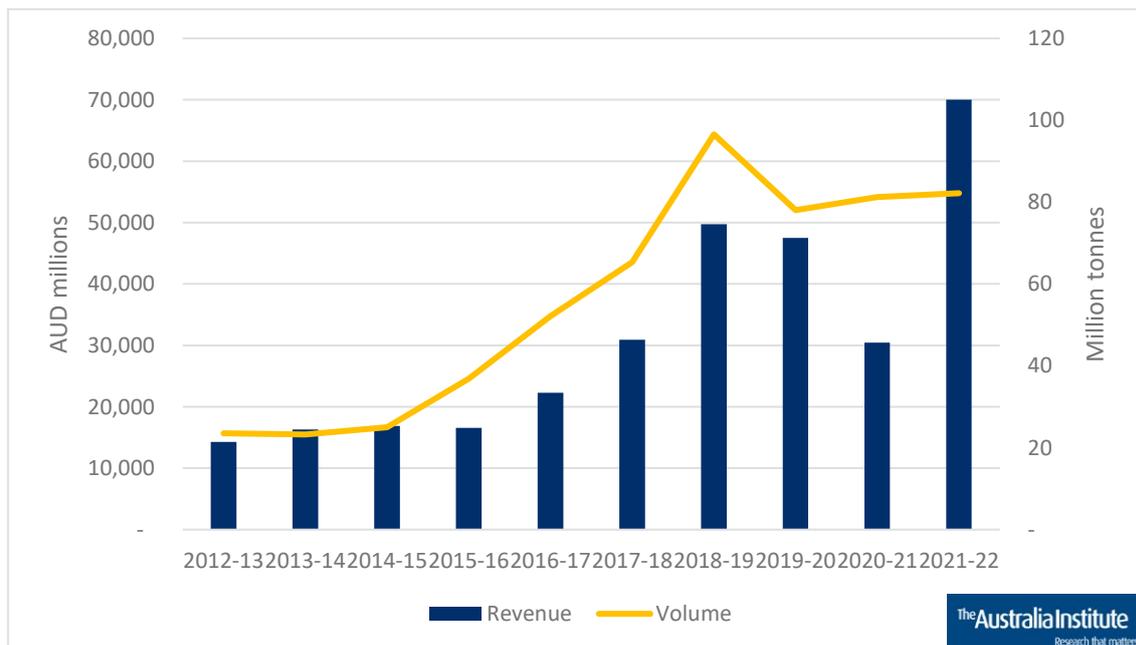
<sup>2</sup> DISER (2022) *Resources and Energy Quarterly June 2022 – Forecast data*, <https://www.industry.gov.au/data-and-publications/resources-and-energy-quarterly>

This jump has seen the value of LNG exports from Australia increase from \$30.5 billion in 2020-21 to \$70.2 billion in 2021-22, while export volumes remained broadly similar, increasing just 6% from 77.4 million tonnes to 82.2 million tonnes.<sup>3</sup>

This \$40 billion dollar increase occurred with virtually no increase in the cost of production according to the Australian Competition and Consumer Commission (ACCC).<sup>4</sup>

If LNG producers covered costs and made reasonable returns on investment in 2020-21, then \$40 billion is a reasonable estimate of the windfall gain to the multinational fossil fuel companies that export LNG from Australia. However, as the LNG price of 2020-21 was lower than long term averages this may overstate the extent of windfall profits because even in the absence of the Russian invasion and resulting sanctions, LNG producers could have reasonably expected an increase in revenues as the global economy recovered from the impacts of the pandemic. Figure 1 below shows revenue from LNG exports and their volume over the last decade:

**Figure 1: Australian LNG export revenue and volume**



Sources: ABS (2022) 5368.0 International Trade in Goods and Services, Australia, DISER (2022) Resources and energy quarterly

<sup>3</sup> Ibid

<sup>4</sup> ACCC (1 August 2022) Gas inquiry July 2022 interim report, <https://www.accc.gov.au/publications/serial-publications/gas-inquiry-2017-2025/gas-inquiry-july-2022-interim-report>

Figure 1 shows that LNG revenue and volume both increased steadily until 2019-20 when both decreased slightly in the wake of the COVID-19 pandemic. While volumes stayed stable, low prices saw revenue decline from nearly \$50 billion in 2019-20 to \$30 billion in 2020-21 before the spectacular rebound following the Russian invasion and sanctions.

Another estimate of the windfall to LNG exporters can be derived from the longer term prices evident in Figure 1 above. Table 1 below estimates the average value over the ten years to 2021 at \$566 per tonne of LNG:

**Table 1: Long term average LNG price for Australian exports**

|   |           |
|---|-----------|
| <b>Volume exported (Mt)</b>   | 472.8     |
| <b>Sale value (\$m)</b>   | 256,938.5 |
| <b>Average sale value (\$/t)</b>  | 565.6     |
|  |           |

Sources: ABS (2022) 5368.0 International Trade in Goods and Services, Australia, DISER (2022) Resources and energy quarterly

Applying this average value of \$566 per tonne of LNG to the volume of 77.4 million tonnes (Mt) of LNG exported in 2022, gives an indication of the revenue the LNG industry expected to earn in the absence of the Russian invasion and subsequent energy market restrictions:

**Table 2: Calculation of expected revenue**

|   |        |
|---|--------|
| <b>Average sale value (\$/t)</b>  | 565.6  |
| <b>Sale volume 2021-22 (Mt)</b>   | 77.4   |
| <b>Expected revenue (\$m)</b>   | 43,793 |
|  |        |

Sources: ABS (2022) 5368.0 International Trade in Goods and Services, Australia, DISER (2022) Resources and energy quarterly

Table 2 shows that based on the long term average value of LNG export volumes, LNG exporters could have expected revenue of approximately \$44 billion in 2021-22. In receiving \$70.2 billion, the windfall gain from the Russian invasion is around \$26 billion.

## CONCLUSION: A WINDFALL PROFITS TAX

---

The \$26 to \$40 billion windfall received by LNG exporters in Australia should be taxed. This windfall is a result of war and in no way reflects effort by or costs faced by oil and

gas companies. A windfall tax is a fair and economically responsible measure to raise revenue from the sale of Australia's gas resources.

It would be effective in solving domestic supply and price issues as it would reduce the incentive for LNG producers to charge Australian customers global prices or to export uncontracted gas to the global spot markets because the additional revenue would be taxed. It has the additional advantage of being simple and easy to implement.

Former Australian Treasury Secretary Dr Ken Henry has argued that a windfall tax should be levied on 100 percent of windfall profits.<sup>5</sup> If that was the case, LNG producers would receive the same amount of revenue for the same amount of production as previous years, without any significant increase in their costs.

A windfall profits tax has already been implemented in the UK,<sup>6</sup> and is supported by leading economists and experts including Dr Ken Henry,<sup>7</sup> world leading economist and Nobel Laureate Joseph Stiglitz,<sup>8</sup> Grattan Institute Energy Program Director Tony Wood,<sup>9</sup> and Atlassian founder Mike Cannon Brooks<sup>10</sup> among others.

A windfall profits tax on 100 percent of windfall profits as suggested by Dr Henry on LNG revenue in FY 2022 alone is enough to fund the Australian Government's entire \$20 billion investment in its *Rewiring the Nation initiative* to rebuild and modernize Australia's electricity grid. This would also leave funds to compensate Australian households and businesses unfairly impacted by spiralling energy costs, largely because of the behaviour of the LNG producers concerned.<sup>11</sup>

---

<sup>5</sup> Pupazzonni and Hutchins, Gas export tax would help to fix Australia's energy crisis, says Dr Ken Henry, <https://www.abc.net.au/news/2022-06-21/a-gas-export-tax-would-help-to-fix-australia-s-energy-crisis/101168956>

<sup>6</sup> Reuters (July 12, 2022) UK lawmakers approve windfall tax on oil and gas producers, <https://www.reuters.com/world/uk/uk-lawmakers-approve-windfall-tax-oil-gas-producers-2022-07-11/>

<sup>7</sup> Pupazzonni Ibid.

<sup>8</sup> Karp (July 2022) Nobel prize-winning economist Joseph Stiglitz calls for windfall profits tax in Australia, <https://www.theguardian.com/australia-news/2022/jul/19/nobel-prize-winning-economist-joseph-stiglitz-calls-for-windfall-profits-tax-in-australia>

<sup>9</sup> [https://twitter.com/tony\\_r\\_wood/status/1549536090109128704](https://twitter.com/tony_r_wood/status/1549536090109128704)

<sup>10</sup> Le Messurier (June 2022) Mike Cannon-Brookes outlines LNG fix for energy crisis, <https://thewest.com.au/business/energy/mike-cannon-brookes-coy-on-joining-agl-energy-board--c-7168749>

<sup>11</sup> ACCC (August 2022) Gas inquiry July 2022 interim report, <https://www.accc.gov.au/publications/serial-publications/gas-inquiry-2017-2025/gas-inquiry-july-2022-interim-report>