

You break it, you pay.

Why the PRRT should be increased to compensate local governments for the climate costs of fossil fuels.

Author: Mark Ogge

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Key points

- **Local governments bear enormous costs from the impacts of fossil fuels on our climate**, including sea level rise and the aftermath of increasingly frequent and extreme fires, floods, storms and heatwaves.
- **Local governments are the least resourced level of government** to cope with these impacts and to meet the increasing costs of maintaining infrastructure and services.
- **Multinational oil and gas companies** exporting Liquefied Natural Gas (LNG) from Australia are fueling climate change but **pay none of the costs of the damage caused by their emissions**.
- Despite making windfall profits many of these companies **pay no petroleum resource rent tax (PRRT)**. They also pay no royalties and therefore receive the gas they export for free, pay little or no company tax, and benefit from substantial taxpayer subsidies.
- Proposed changes to the PRRT offer an opportunity to redress this imbalance, and secure funding for local governments to cope with the climate impacts of fossil fuels, but **only if local government representatives unite and advocate strongly for this outcome**.

An additional \$10 billion raised by the PRRT could provide \$18.6 million of climate impact funding to each of the 537 LGAs in Australia. Australia is one of the largest Liquefied Natural Gas (LNG) exporters in the world, resulting in emissions that damage our climate. Climate change induced by these emissions are making fires, floods and heatwaves worse in Australia and around the world.

Australia has 44 major new oil and gas projects under development that will greatly increase emissions if they proceed. One cluster of projects alone, Woodside's Burrup Hub expansion in Western Australia would add around 6 billion tonnes of emissions to our atmosphere over its lifetime, equivalent to 15 new coal power stations.

The handful of multinational gas corporations responsible for Australia's LNG exports make no contribution to the costs of the damage they are causing to our climate.

Instead, these costs are borne by ordinary Australians in the form of property damage, higher insurance premiums, taxes and rates, and general erosion of our quality of life.

Local Governments, funded largely by ratepayers, are at the forefront of dealing with the climate impacts of fossil fuels, but are the least resourced level of government.

Not only do the companies causing the problem avoid paying any of the costs of the damage they are causing, they are also notorious non-payers of tax and royalties. Many pay no company tax, no petroleum resource rent tax (PRRT) and get their gas for free because the Australian Government fails to impose royalties on much of the offshore gas they export from Australia.

Potential changes to the PRRT provide an opportunity to redress this imbalance to some degree by shifting the climate costs of fossil fuels from ordinary Australians and local governments to the companies causing the problem.

THE PRRT

The PRRT is a tax on super-profits, sometimes called "resource rents", made by multinational oil and gas companies operating in Australia. These are profits well above the returns that could ordinarily be expected and result from global price increases rather than any change in productivity by the companies themselves.

While the PRRT is intended to achieve a 'fair return'¹ to the community for the operation of oil and gas companies, the tax has extensive loopholes due to an extremely complex design that allows oil and gas producers to minimize or avoid paying it altogether. These loopholes greatly reduce the amount of tax revenue collected by the PRRT.

¹ The Australian Government Treasury (2017) Petroleum Resource Rent Tax Review Final Report, p. 3, https://treasury.gov.au/sites/default/files/2019-03/R2016-001_PRRT_final_report.pdf

PROPOSED CHANGES TO THE PRRT

The Australian Government has proposed minor changes to increase the amount of revenue it collects. The changes are mild enough to be supported by the gas industry lobby group, Australian Energy Producers (AEP).²

Despite this, the Federal Opposition have indicated they may not support the amendments. This means Labor would require the support of the Greens and two independent/ minor parties in the Senate to pass it. The Greens, with independents David Pocock, Jacqui Lambie and Tammy Tyrrell have written to the Treasurer promising to pass Labor's changes if the tax attracted an additional \$2.6 billion in revenue over the next four years, on top of the \$2.4 billion already forecast by Labor in the May 2023 budget.³

Before the proposed legislative changes go to the Senate, the Senate Standing Committees on Economics will hold an inquiry with submissions due on February 9th 2024, and a final report due on April 18th.⁴

One big problem with the PRRT is its complexity. Over many years the oil and gas industry has run rings around Australian Governments, creating tax loopholes.

As such, The Australia Institute encourages those advocating for an increase in the PRRT not to get lost in the weeds of its details, because the oil and gas industry will always be better at this game.

All that matters is the additional amount the tax would raise, and it is the responsibility of the government to say how much it will raise and when, and ensure they draft legislation that will achieve this.

² AEP (2023) Media Release: APPEA statement on changes to the Petroleum Resource Rent Tax (PRRT), https://energyproducers.au/all_news/media-release-appea-statement-on-changes-to-the-petroleum-resource-rent-tax-prrt/

³ Greber (2023) 'Lecturing' teals and trolls should butt out on gas projects: NT chief, <https://www.afr.com/policy/energy-and-climate/chalmers-rejects-greens-gas-offer-challenges-coalition-20230801-p5dsuu>

⁴ Senate Standing Committees on Economics (2023) Inquiry into Treasury Laws Amendment (Tax Accountability and Fairness) Bill 2023 [Provisions], https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/TLABTaxAcctFairness#:~:text=On%2030%20November%202023%2C%20the,report%20by%2018%20April%202024.&text=The%20closing%20date%20for%20the%20committee%20receiving%20submissions%20is%209%20February%202024.

We suggest those advocating for an increase in in the PRRT should simply argue:

- **Why they think the government should tax the gas industry more.**
- **What the money should be spent on.**

The Australia Institute argues that the PRRT could be strengthened to raise an additional \$10 billion annually from fossil fuel companies. This money could then be distributed to local governments to assist in managing the impacts of climate change.

HOW MUCH DAMAGE ARE AUSTRALIAN LNG EXPORTS DOING TO OUR CLIMATE?

Fossil fuels damage our climate, increasing the frequency and severity of climate-related disasters including fires, floods, heatwaves and storms. They cause sea level rise and inundations, undermine agriculture, and damage infrastructure. They also disrupt essential services such as transport and electricity, raising the cost of both.

Although the full cost of damage to the climate from fossil fuel emissions is inestimable, a measure approximating the social and economic costs is the *social cost of carbon* (SCC).

When calculating the social cost of carbon, climate scientists and economists create models to predict what will happen to a range of indicators when new carbon dioxide is put into the atmosphere. Among these indicators are health outcomes, agricultural production, and property values. An extra ton of carbon emissions shortens lifespans, hurts crops, and causes sea levels to rise, decreasing property values.⁵

Estimates of the social cost of carbon range from \$US177/t (\$AUD268) to \$US805/t (\$AUD1215).⁶

⁵ Asdourian and Wessel (2023) What is the Social cost of carbon? <https://www.brookings.edu/articles/what-is-the-social-cost-of-carbon/#:~:text=When%20calculating%20the%20social%20cost,agricultural%20production%2C%20and%20property%20values>.

⁶ Ricke et al (2018) Country-level social cost of carbon, <https://www.nature.com/articles/s41558-018-0282-y>

Australian gas exports result in over 200 million tonnes of emissions annually.⁷ This includes both emissions released in Australia and emissions released when the gas is burned overseas (often referred to as scope 3 emissions).

If we apply these SCC measures, Australian LNG cause between \$53 billion and \$243 billion worth of damage to the atmosphere every year.

Table 1: The economic costs of climate damage from Australia’s fossil fuel exports.

			Emissions Australian LNG exports	SCC Australian LNG exports
	US\$	AUD\$	Mt CO2e	\$AUD
Ricke et al (2018), low SCC	177	267	200	53,454,000,000
Ricke et al (2018), high SCC	805	1215	200	243,110,000,000



WHO PAYS THE COST OF CLIMATE DAMAGE, AND WHO DOESN'T?

Currently, the entire cost of damage from fossil fuel emissions is paid by the Australian community and none by the fossil fuel companies causing the problem.

Much of the property damage is uninsured or underinsured, meaning it is absorbed by property owners. Insured losses drive up insurance premiums for everyone. The disruption to people’s lives and livelihoods is also absorbed by the community. For example, there are many people still living in temporary accommodation from the 2019-20 Black Summer fires.

Emergency response, relief and reconstruction is paid by ratepayers and taxpayers. Loss of agricultural income is absorbed by farmers and disruption to businesses is absorbed by the business themselves or passed onto consumers in higher prices.

COSTS TO LOCAL GOVERNMENT

Local governments are at the frontline of dealing with many of the impacts of climate change including natural disasters but have the least resources to cope with the

⁷ Ogge et al (2021) Undermining Climate Action The Australian Way, <https://australiainstitute.org.au/wp-content/uploads/2021/11/P1163-Undermining-climate-action-the-Australian-way-WEB.pdf>

impacts. They are responsible for 25% of Australia's high value infrastructure assets, but receive only a 4% share of public sector revenue.⁸

The Australian Local Government Association (ALGA) described the threats of climate change as follows:

There has been significant focus in this process and more broadly on the threats in the coastal zone - these include sea-level rise and storm surges. However, the presence of climate change in non-coastal areas is of equal importance, with flooding, more widespread and prolonged droughts and bushfire risk needing to be considered and assessed. In addition to those more clearly observed threats, it is important to consider the impacts of warmer temperatures and how that affects local biodiversity put at risk by the ability of pest species to travel further on land and in water.⁹

Different Local Government Areas (LGAs) are impacted in different ways. Many LGAs face multiple threats. For instance, many areas are subject to flooding, heatwaves, fire and drought.

LGAs across Australia have experienced devastating flood events in recent years. Global average precipitation can increase by 7% for each degree of warming,¹⁰ and BOM modelling projects "Pacific rainfall disruptions," including both floods and drought, to increase 90% by 2050 and 130% by the end of the century due to global warming.¹¹

Increasing heatwaves are also impacting LGA's across Australia. Northern Queensland LGAs such as Townsville, Rockhampton and Mackay currently experience just a few days per year over 35 degrees, but are projected to experience potentially over 100 days over 35 degrees annually by the end of the century if emissions continue to

⁸ LGAQ (2017) *LGAQ Submission to the Senate Inquiry into the current and future impacts of climate change on housing, buildings and infrastructure*, https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Environment_and_Communications/CCInfrastructure/Submissions

⁹ ALGA (2017) *Submission to the Senate Environment and Communications References Committee on Current and future impacts of climate change on housing, buildings and infrastructure*, https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Environment_and_Communications/CCInfrastructure/Submissions

¹⁰ UCAR, Predictions of Future Global Climate, <https://scied.ucar.edu/learning-zone/climate-change-impacts/predictions-future-global-climate>

¹¹ BoM (2017) Droughts and flooding rains already more likely as climate change plays havoc with Pacific weather, <http://www.bom.gov.au/climate/updates/articles/a023.shtml#:~:text=These%20rainfall%20disruption%20are%20primarily,Ocean%20from%20year%20to%20year.>

increase.¹² Darwin could experience over 300 days per year over 35 degrees by the end of the century.¹³ Australia's most populous urban centre, Western Sydney, is already a heat trap with large increases in extreme heat projected over coming decades.¹⁴ All of these are exacerbated by the high relative humidity of these areas, which in combination with high temperatures result in high wet bulb temperatures that amplify the risk of heat-related illness and deaths.

LGAs throughout Australia are also impacted by the increasing frequency and intensity of bushfire weather. Climate change has contributed to an increased intensity of fire weather and a lengthening of the fire season in Australia over recent decades.¹⁵

Fire damages infrastructure and private property. It also has devastating impacts on the health and wellbeing of local communities. All these impacts place further strain the resources of local governments.

Additional funding from the PRRT could assist local governments in recovering from natural disasters and build resilience to future disasters.

MANY OIL AND GAS MULTINATIONALS GET AUSTRALIA'S GAS FOR FREE, PAY LITTLE IF ANY TAX AND RECEIVE GENEROUS SUBSIDIES

Where the petroleum resource rent tax (PRRT) is a tax levied on extraordinary profits, royalties are the payments gas companies make for gas resources owned by the Australian community. Royalties are similar to a builder paying for the building materials they use.

However, the Federal Government fails to impose royalties on any offshore gas production in Commonwealth waters other than the North West Shelf. This means that over half the gas exported from Australia is royalty-free. In other words, gas companies are receiving their gas for free.

¹² Ogge (2019) *HeatWatch QLD: Extreme heat in the Sunshine State*, <https://www.tai.org.au/content/heatwatch-qld-extreme-heat-sunshine-state>,

¹³ Ogge (2018), *Cooked with gas: Extreme heat in Darwin*, <https://www.tai.org.au/content/cooked-gas-extreme-heat-darwin>

¹⁴ Melville-Rae (2022) *HeatWatch: Extreme heat in Western Sydney*, <https://australiainstitute.org.au/report/heatwatch-extreme-heat-in-western-sydney-2022/>

¹⁵ BOM (2018) *State of the climate 2022*, <http://www.bom.gov.au/state-of-the-climate/2022/documents/2022-state-of-the-climate-web.pdf>

As shown in Table 1, some of the largest oil and gas companies operating in Australia have paid no PRRT on almost \$300 billion income since 2013-14.

Table 1: Total income v PRRT paid 2013-14 to 2021-22, selected companies.

	Total income \$	PRRT \$
Exxon	97,875,399,715	0
Shell	83,828,945,557	0
INPEX	41,841,659,444	0
Chevron	73,353,575,915	0
Total	296,899,580,631	0



Source: ATO (2023) Corporate Tax Transparency, Report of Entity Tax Information 2021-22, <https://data.gov.au/dataset/ds-dga-c2524c87-cea4-4636-acac-599a82048a26/details>

Furthermore, many of these companies pay little to no company tax. The three large east coast LNG exporters -- APLNG operated by Origin, QCLNG operated by Shell subsidiaries Arrow and QGC, and GLNG operated by Santos -- appear to have paid no company tax since they began operating in around 2018. This situation is the same with Icthus LNG in Darwin Harbour, operated by INPEX. Santos has paid just \$6 million of company income tax, amounting to only 0.2% of its \$38 billion income since 2014. Chevron paid company tax for the first time in 2022.

Figure 1 below compares the income and income tax of various selected companies from Australian Taxation Office (ATO) Company Tax Transparency data published in December 2023.

Table 2: total income and company tax paid, selected companies, FY 2014-2022.

	APLNG		QGC		Arrow Energy		Icthus LNG		Chevron		Santos	
FY	Total income	Tax paid	Total income	Tax paid	Total income	Tax paid	Total income	Tax paid	Total income	Tax paid	Total income	Tax paid
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
2014	481	0							3,032	0	4,357	3
2015	415	0			208	0			3,088	0	3,389	0
2016	911	0			207	0			2,142	0	3,476	0
2017	3,582	0			231	0			2,239	0	3,715	0
2018	5,292	0	3,655	0	617	0			5,274	0	3,498	0
2019	7,207	0	3,985	0	338	0	802	0	11,986	0	5,322	3
2020	6,979	0	3,524	0	361	0	6,378	0	15,934	0	5,014	0
2021	4,615	0	4,602	0	272	0	6,106	0	12,484	0	4,798	0
2022	9,347	0	5,870	0	360	0	7,281	0	17,174	155	5,861	0
Total	38,834	0	21,637	0	2,594	0	20,569	0	73,354	155	39,432	6



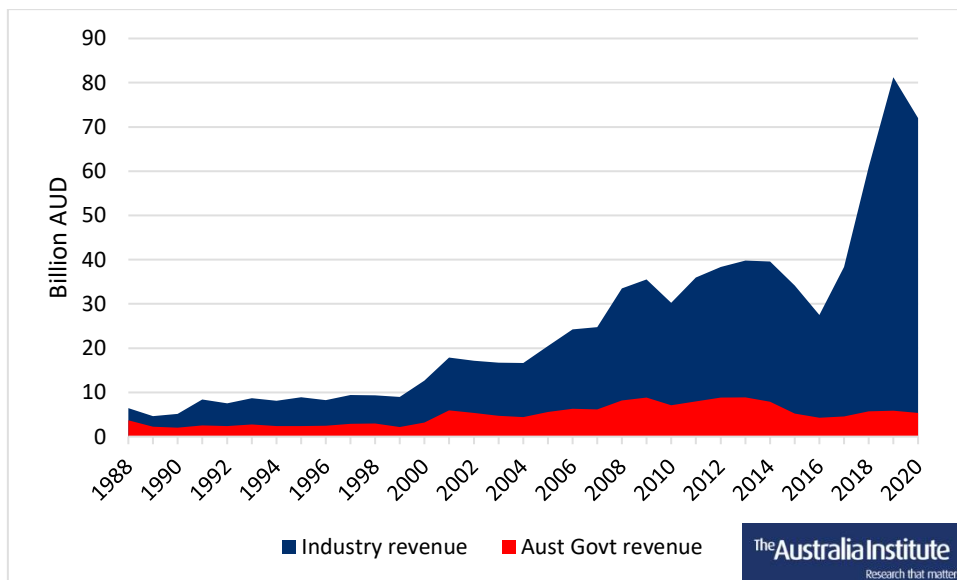
Source: Source: ATO (2023) Corporate Tax Transparency, Report of Entity Tax Information 2021-22, <https://data.gov.au/dataset/ds-dga-c2524c87-cea4-4636-acac-599a82048a26/details>

Other countries don't allow themselves to be swindled by global resource companies like Australia does.

Norway, for instance, produces a similar amount of gas to Australia. However, it takes a far greater proportion of revenue generated by oil and gas production than Australia does and has transferred this money to a sovereign wealth fund now worth A\$1.9 trillion, equal to around \$350,000 for each of Norway's 5.4 million citizens or \$1.4 million for a family of four.¹⁶

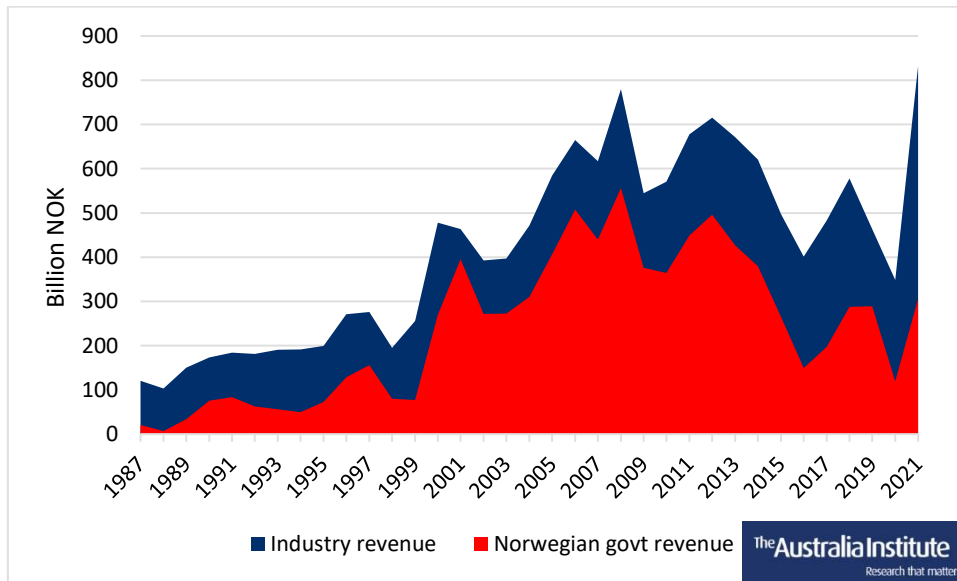
The following two charts compare the distribution of oil and gas revenue between government and industry in Australia and Norway

Figure 3: Australian Industry and Government revenue from Oil and Gas



¹⁶ Bleakley (2022) Norway shows how Australia can get a fair return from oil and gas
<https://australiainstitute.org.au/post/norway-shows-how-australia-can-get-a-fair-return-from-oil-and-gas/>

Figure 4: Norwegian Industry and Government revenue from Oil and Gas



Additionally, the Australian Federal Government subsidises fossil fuels to the tune of \$11 billion annually. Much of these subsidies consist of fuel tax concessions that primarily benefit the fossil fuel industry. In 2022-23 the oil and gas industry was the main beneficiary of direct subsidies through budget spending (excluding fuel tax concessions), receiving around \$967 million in that year, around half of the \$1.9 billion raised by the PRRT in 2021-22.¹⁷ These direct subsidies increased to \$1.4 billion in 2022-23. The PRRT data for that year is not yet available.

The Federal Government’s main spending measures which benefit the gas industry, spread over forward estimates, consist of \$1.9 billion to assist the Middle Arm petrochemical hub in Darwin, \$141.1 million over 10 years to assist carbon capture and storage (CCS) projects, and \$217 million to build roads explicitly for the onshore gas industry in the NT.

¹⁷ Campbell et al (2022) Fossil fuel subsidies in Australia, <https://australiainstitute.org.au/wp-content/uploads/2022/03/P1198-Fossil-fuel-subsidies-2022-WEB.pdf>

CONCLUSION

Local governments are facing direct damages from climate change and are left without the resources necessary to provide critical infrastructure and services in the face of these impacts

Meanwhile, the fossil fuel industry in Australia pays minimal tax, little to no royalties, and receives generous government subsidies. Oil and gas companies do not cover the climate change-related costs caused by the emissions they produce.

The proposed changes to the PRRT present an opportunity to redress this. The Australia Institute proposes that the PRRT be raised to collect an additional \$10 billion in annual revenue. This money can be distributed to local governments to assist in dealing with climate impacts.