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**Submission of the Justice and International Mission Unit, Synod of Victoria and Tasmania, Uniting Church in Australia to the *Options to address the design issues identified in the Petroleum Resource Rent Tax Review Consultation Paper***

**28 July 2017**

The Justice and International Mission Unit, Synod of Victoria and Tasmania, Uniting Church in Australia, welcomes the opportunity to provide a submission to the *Options to address the design issues identified in the Petroleum Resource Rent Tax Review Consultation Paper.* We endorse the submission of the Tax Justice Network Australia, of which we are a member.

The Unit continues to be perplexed why the Review decided that on-going tax concessions are necessary for the multinational gas corporations operating in Commonwealth waters through the design of the PRRT. Appendix F of the review noted that of the global natural gas market:[[1]](#footnote-1)

*However, strong growth in capacity will more than offset the projected demand growth over the next few years. Global liquefaction capacity of forecast to increase on average by 7 per cent a year until 2021 as new projects come online, mostly from Australia and the United States (see Figure F.1). Australia’s new LNG projects will add around 25 per cent to global liquefaction capacity.*

*Figure F.2 shows that despite the rapid increase in LNG demand to 2020, an even faster expansion of LNG capacity over the same period will add to excess supply in the market causing downward pressure on spot prices.*

*There is no certainty on when this excess capacity may be absorbed beyond 2020. The countries with the greatest potential for long term LNG demand growth can also access pipeline supplies and/or increased domestic production.*

Despite this analysis of a medium term glut in gas supply driving prices down, the Review determined that it is necessary to give away the natural gas in Commonwealth waters for a much lower return to the community than a flat royalty would collect in order to stimulate the development of even more production, which will no doubt further help to suppress gas prices and further reduce revenue returns to the Australian Government and Australian people.

The International Energy Agency (IEA) assessment of global energy needs and consumption, released in November 2016, predicts as their main scenario a 30% rise in global energy demand to 2040. Natural gas fares best among the fossil fuels, with consumption rising by 50%.[[2]](#footnote-2) The IEA state in relation to the future of oil and gas demand “For the moment, the collective signal sent by governments in their climate pledges (and therefore reflected in our main scenario) is that fossil fuels, in particular natural gas and oil, will continue to be a bedrock of the global energy system for many decades to come….”[[3]](#footnote-3)

The IEA predicts a 1.5% annual rate of growth in natural gas demand to 2040, but notes markets, business models and pricing arrangements are all in flux. Gas consumption increases almost everywhere, with the main exception of Japan where it falls back as nuclear power is reintroduced. China (where consumption grows by more than 400 billion cubic metres) and the Middle East are the largest sources of growth. However, the IEA questions how quickly a market currently awash with gas can rebalance, especially with another 130 bcm of liquefaction capacity under construction, primarily in the United States and Australia.[[4]](#footnote-4) This calls into question the design of the PRRT, which aims to stimulate exploitation of Australia’s natural gas resources as soon as possible, rather than at the time that would be most optimal for the greatest return to the Australian public.

The IEA assumes a marked change from the previous system of strong, fixed-term relationships between suppliers and a defined group of customers, in favour of more competitive and flexible arrangements, including greater reliance on prices set by gas-to-gas competition. This shift is catalysed by the increasing availability of footloose US LNG cargoes and the arrival in the 2020s of other new exporters, notably in East Africa, as well as the diversity brought to global supply by the continued, if uneven, spread of the unconventional gas revolution. Floating storage and regasification units help to unlock new and smaller markets for LNG, whose overall share in long-distance gas trade grows from 42% in 2014 to 53% in 2040. But uncertainty over the direction of this commercial transition could delay decisions on new upstream and transportation projects, posing the risk of a hard landing for markets once the current oversupply is absorbed. The IEA believes that export-oriented producers have to work hard to control costs in the face of strong competition from other fuels, especially in the power sector. In the mid-2020s, in gas-importing countries in Asia, new gas plants would be a cheaper option than new coal plants for baseload generation only if coal prices were $150/tonne (double the anticipated 2025 price). The space for gas-fired generation is also squeezed by the rising deployment and falling costs of renewables.[[5]](#footnote-5)

1. **Of the options outlined above, which option, or combination is preferred? What are the advantages and disadvantages of each option? Which options could be considered in combination?**

As noted above, the Unit does not believe that the Commonwealth Government needs to be stimulating investment in new gas fields at this time, so the Unit prefers Option 1 of the options being offered so that the uplift on exploration expenditure is the LTBR plus 5 percentage points. The next best option is Option 3 for the reasons given in the consultation paper.

1. **Given the transferability provision have been inserted in the system, should exploration expenditure continue to attract a higher uplift rate (or larger investment allowance) relative to general expenditure?**

As there is currently no need to see new gas fields developed given the market over-system in the medium term, exploration expenditure should not attract a higher uplift rate. Stimulus for exploration could be reviewed when the current global market oversupply ends and should companies not be sufficiently engaging in exploration activities without such a reward at the cost of government’s ansd community’s share.

1. **If the uplift rates are lowered, what would be the appropriate rates for exploration, and general expenditure?**

The Unit’s preference is that the uplift rates would be reduced to LTBR for all expenditure.

**8. What is the appropriate uplift rate for resource tax expenditure?**

The uplift factor for resource tax expenditure should be the LTBR, for the reasons noted in the consultation paper.

**9. Is the proposed dual principle appropriate?**

The Unit’s preferred option within the parameters set by the consultation paper is that all deductions attract the same uplift rate of LTBR. That would eliminate the problem of the order of deductions. If different uplift rates are maintained, then the proposed dual principle will help curb gaming the system by the multinational gas corporations.

**13. Treasury is interested in views on these options – the positives and negatives – and the reasons why one approach may be favoured above others. Are there other approaches that could be considered?**

The Unit is concerned that the principle Treasury seems to be most worried about is that gas corporations are rewarded for all exploration expenditure through tax offsets. The Unit’s concern is that it makes the community share the risk with the corporations no matter how badly they manage their exploration activities. Many other businesses take risks and if they fail and make no profit, then they have to carry their loss as there is no profit to claim deduction against. It is unclear why it is so important that gas corporations be able to get tax deductions for all exploration activities, no matter how poorly conceived or carried out.

Within the parameters of the consultation paper, the Unit prefers all deductions to attract an uplift rate of the LTBR and therefore prefers Option 1 of the single uplift rate applying to expenditure that is transferred.

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1. ‘Petroleum Resource Rent Tax Review’, Australian Government, 13 April 2017, 175-176. [↑](#footnote-ref-1)
2. International Energy Agency, ‘World Energy Outlook 2016. Executive Summary’, Paris, France, November 2016, p. 1. [↑](#footnote-ref-2)
3. International Energy Agency, ‘World Energy Outlook 2016. Executive Summary’, Paris, France, November 2016, p. 5. [↑](#footnote-ref-3)
4. International Energy Agency, ‘World Energy Outlook 2016. Executive Summary’, Paris, France, November 2016, p. 7. [↑](#footnote-ref-4)
5. International Energy Agency, ‘World Energy Outlook 2016. Executive Summary’, Paris, France, November 2016, p. 7. [↑](#footnote-ref-5)