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Dear Committee

Submission to the Review of the Petroleum Resource Rent Tax (PRRT)

This submission is informed by research that I, Kevin Morrison, have undertaken into resource taxation in Australia since 2013. It forms part of the *Master of Sustainable Futures (Research)* degree I am soon to complete at the UTS Institute for Sustainable Futures, where Professor Damien Giurco is my supervisor. The focus of my research is on resource rent taxes in Australia.

This submission is in response to the third point of the terms of reference for this inquiry, namely, *The impact of previous policy decisions on Commonwealth revenue* and the fifth point of the terms of reference, namely *Other related matters*.

Impact of previous policy decisions on Commonwealth revenue

As part of my Master's research I compiled a table, which is in the accompanying excel spreadsheet. This table shows the history of PRRT (column H) for each of the financial years since the tax was legislated. I have also included the production of each of the energy types that are subject to the PRRT – oil, condensate, liquefied petroleum gas (LPG) and liquefied natural gas (LNG.) Note: LNG production since it started in the 1989-90 year.

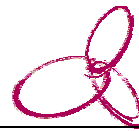
The data was sourced from Australian federal and state budget papers, the department of energy and resources and its agencies that have compiled the data over this period. I have highlighted in yellow the peak in production or revenue for each column.

The data shows that PRRT revenue peaked in the 2000-01 financial year, which was the same year that Australian crude oil production peaked. However, the combined total production of hydrocarbons has continued to rise since that period with combined production in the 2015-16 financial year about 40 per cent above the 2000-01 level, which is mainly due to the expansion in LNG supply. Oil prices on average have mainly been above the 2000-01 average, yet PRRT revenue has only been above A\$2 billion dollars in one other financial year. The data in the accompanying spreadsheet shows LNG production has risen more than fivefold since the 2000-01 year, yet PRRT have fallen by two-thirds over the same period, which shows that as Australia's hydrocarbon output has become more weighted towards gas, PRRT revenue has fallen. This may reflect the working of the prevailing gas price methodology used to calculate the taxing point on gas used for LNG projects.

During the period when PRRT revenues peaked in 2000-01 and the record hydrocarbon production on a barrel of oil equivalent (boe) measurement in 2015-16 there have been a number of changes in legislation, which affects the PRRT.

Summary of legislative changes and government announcements relating to PRRT

Date	Legislation/announcement
Dec 1998	Australian Government announces it will use a Residual Price Methodology (RPM) to determine the gas transfer price.
21 Aug 2003	House of Representatives Standing Committee on Industry and Resources releases report <i>Exploring Australia's Future</i> calling for greater deductions under the PRRT.
15 Sep 2003	Senate passes <i>Taxation Laws Amendment Bill (No.3) 2003</i> , bill amendments recognise expenditures associated with closing down a facility that has ceased to be used for a petroleum project but continues to be used under an infrastructure licence, tolling fees.



11 May 2004	Treasurer Peter Costello announces plans to increase value of exploration deductions in designated frontier areas from 100% to 150% for PRRT determination.
16 Mar 2005	Senate passes <i>Tax Laws Amendment (2004 measures No7) Bill 2005</i> , PRRT uplift rate increases to 150% from 100%.
10 May 2005	Costello says in 2005-06 that he plans to amend PRRT to allow for further deductions
15 Dec 2005	PRRT assessment regulation 2005 passed, known as Gas Transfer Pricing Regulation under PRRT.
30 Jun 2006	<i>PRRT (Instalment Transfer Interest Charge Imposition) Bill 2006</i> and <i>PRRT Assessment Amendment Bill 2006</i> both receive royal assent, the latter bill allows certain deductions on expenditure.
8 May 2007	Peter Dutton announces proposed changes to PRRT; the functional currency rule, exploration spending on exploration permits, retention leases & tolling fee treatment under PRRT.
16 Jun 2009	PRRT changes came into effect, which were ultimately legislated in the <i>Tax Laws Amendment (2009 Measures No 3) Bill 2009</i> and were first announced by Dutton in May 2007.
02 Jul 2010	PRRT to be extended onshore.
01 Jul 2012	PRRT onshore extension comes into effect.
10 Dec 2015	<i>Petroleum Resource Rent Tax Assessment Regulation 2015</i> comes into force.

It is difficult to assess the impact of each legislative change on PRRT, but law changes that allow greater deductions may have made some contribution to the fall in PRRT revenue. Greater disclosure rules on resource tax payments would allow for improved analysis on rule changes and their corresponding impact on budget revenue.

Other related matters

Some of the most transparent resource tax revenue disclosure in Australia is from BHP Billiton and Rio Tinto due to their dual listing on the London Stock Exchange where they are subject to the United Kingdom government's implementation of the European Union's *Transparency Directive Amending Directive (TDAD), Directive 2013/50/EU* that came into effect 1 January 2015 in the UK. Similar disclosure rules in Australia would provide a more informed debate on resource taxation. This point on resource tax disclosure is in response to point five in terms of references on the review to examine other related matters.

In the accompanying spreadsheet I have also included revenue from North West Shelf (NWS) Grants as well as royalty income for Western Australia and Queensland as I could not find the petroleum royalty revenue for South Australia. Combining federal and state petroleum resource revenue, total revenue across the studied jurisdictions peaked in 2008-09 at A\$3.11 billion. The same argument that was made before when looking at the PRRT revenue alone can be applied to total petroleum revenue whereby production has increased by around 40 per cent, but revenue is down by two-thirds between 2008-09 and 2015-16.

I am willing to co-operate with the inquiry to discuss the issues raised and discuss more broadly some of the findings of my Master's research, which I am planning to complete in the first half of 2017.

Yours faithfully,

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Year	Oil production			LNG exports in		Oil, condensate, LPG LNG combined		PRRT revenue A\$m	Oil price (US)	Oil price (A\$)	NWS grants	WA petroleum royalty	Qld Petroleum royalty	Total royalty & PRRT	
	b/d	Condensate b/d	LPG b/d	boe/d	LNG exports kt	output boe/d	PRRT revenue A\$m							revenue A\$	Fuel excise A\$
1983-84	462,272.77					462,272.77						18,141,972.00		18,141,972.00	2,137,000,000
1984-85	533,402.26					533,402.26						17,555,803.00		17,555,803.00	2,387,000,000
1985-86	546,807.96					546,807.96						34,023,504.00		34,023,504.00	3,087,000,000
1986-87	542,844.84					542,844.84			18.720			27,409,626.00		27,409,644.72	5,217,000,000
1987-88	538,709.40					538,709.40			17.200			30,044,164.00		30,044,181.20	5,426,000,000
1988-89	486,861.38					486,861.38			16.092			20,579,607.00		20,579,623.09	5,828,000,000
1989-90	551,288.02			49,396	2,010,000	600,684.46	42,000,000.00		17.9	22.82		51,777,319.00		93,777,359.72	6,416,000,000
1990-91	550,616.01	55,146.34	61,035.86	83,556	3,400,000	750,354.38	293,000,000.00		23.52	30.25		92,427,105.00		385,427,158.77	6,642,000,000
1991-92	539,484.79	58,717.22	61,728.33	114,521	4,660,000	774,451.44	876,000,000.00		19.14	25.38		86,520,781.00		962,520,825.52	7,093,000,000
1992-93	529,077.28	61,167.58	64,507.91	122,484	4,984,000	777,236.27	1,389,000,000.00		18.77	26.66		79,728,050.00		1,468,728,095.43	7,200,000,000
1993-94	498,750.75	63,440.03	66,184.81	148,238	6,032,000	776,614.06	1,072,000,000.00		15.34	22.17		72,886,319.00		1,144,886,356.51	8,499,000,000
1994-95	537,434.31	77,380.53	76,109.20	172,470	7,018,000	863,393.79	865,000,000.00		17.31	23.31		113,736,997.00		978,737,037.62	9,406,000,000
1995-96	521,254.42	108,529.12	65,978.10	183,873	7,482,000	879,634.35	791,000,000.00		17.85	23.51		159,405,226.00		950,405,267.36	10,224,000,000
1996-97	535,004.74	120,858.46	68,442.69	183,971	7,486,000	908,276.90	1,308,000,000.00		20.97	26.79		229,746,772.00		1,537,746,819.76	10,543,000,000
1997-98	585,181.36	143,769.24	76,496.36	188,001	7,650,000	993,448.33	907,000,000.00		16.4	24.09		247,403,489.66		1,154,403,530.15	10,895,000,000
1998-99	480,709.92	138,112.32	67,228.38	192,155	7,819,000	878,205.22	419,000,000.00		13.31	21.21		176,949,877.24		595,949,911.76	10,974,000,000
1999-00	645,558.71	134,500.61	71,017.90	194,710	7,923,000	1,045,787.67	1,184,000,000.00		24.55	39.02		344,896,958.00		1,528,897,021.57	11,189,000,000
2000-01	686,465.06	124,663.92	67,572.64	185,052	7,530,000	1,063,753.95	2,379,000,000.00		28.28	52.56		526,714,875.00		2,905,714,955.84	11,919,000,000
2001-02	651,675.71	136,658.08	71,659.31	186,773	7,600,000	1,046,765.70	1,361,000,000.00		22.8	43.52		428,286,945.00		1,789,287,011.32	12,386,000,000
2002-03	574,133.18	147,700.33	71,960.98	192,336	7,826,400	986,130.96	1,712,000,000.00		27.85	47.61		488,569,500.00		2,200,569,575.46	12,866,000,000
2003-04	480,325.65	130,424.91	67,191.13	194,487	7,913,900	872,428.50	1,165,000,000.00		31.39	43.99		416,331,506.00		1,581,331,506.00	13,231,000,000
2004-05	437,191.99	122,469.01	71,702.00	260,226	10,588,900	891,588.85	1,465,000,000.00		45.12	59.93		549,660,913.00		2,014,661,018.05	13,608,000,000
2005-06	398,923.06	115,018.35	81,363.95	295,622	12,029,200	890,927.07	1,991,000,000.00		61.65	82.5		678,825,887.00		2,669,826,031.15	13,655,000,000
2006-07	480,191.26	120,783.79	78,400.10	352,221	14,332,300	1,031,596.33	1,594,000,000.00		62.8	79.89		714,091,067.00		2,308,091,209.69	14,138,000,000
2007-08	445,768.93	119,310.00	68,420.45	336,146	13,678,200	969,645.84	1,871,000,000.00		94.34	105.19		811,026,024.00		2,682,026,223.53	14,906,000,000
2008-09	478,769.71	132,327.53	67,636.37	378,704	15,409,900	1,057,437.18	2,184,000,000.00		68.95	92.41		868,761,581.00	60,900,000.00	3,113,661,742.36	15,448,000,000
2009-10	470,926.17	153,287.24	70,592.14	439,063	17,866,000	1,133,868.62	1,297,000,000.00		75.04	85.04	759,612,306.00	21,925,331.00	47,900,000.00	2,126,437,797.08	15,506,000,000
2010-11	444,076.85	143,913.78	64,222.81	490,448	19,956,900	1,142,661.09	806,000,000.00		92.78	93.75	970,376,925.00	21,535,059.00	52,100,000.00	1,850,012,170.53	16,121,000,000
2011-12	414,718.70	128,219.49	63,085.10	463,638	18,866,000	1,069,661.70	1,463,000,000.00		112.41	108.93	935,598,442.00	18,749,522.00	53,200,000.00	2,470,548,185.34	16,844,000,000
2012-13	366,744.21	128,929.77	58,665.10	577,594	23,503,000	1,131,933.35	1,817,000,000.00		108.69	105.85	1,019,886,602.46	18,187,506.63	58,800,000.00	2,913,874,323.63	18,050,000,000
2013-14	346,880.33	124,154.98	64,129.51	571,278	23,246,000	1,106,443.22	1,511,000,000.00		109.34	119.04	1,106,892,594.85	11,493,467.24	69,200,000.00	2,698,586,290.47	18,617,000,000
2014-15	328,188.16	111,403.41	57,250.21	615,548	25,047,400	1,112,390.22	1,870,000,000.00		73.46	87.78	943,795,896.00	8,716,839.00	51,000,000.00	2,873,512,896.24	17,828,000,000
2015-16	316,965.68	117,389.82	52,725.32	1,007,636	41,001,905	1,494,716.67	741,000,000.00		43.26	59.4	588,000,000.00	6,000,000.00	36,000,000.00	1,371,000,102.66	17,900,000,000
2016-17	309,816.28			1,246,633.40	50,727,000.00	1,556,449.68	800,000,000.00		46.88		457,000,000.00	-	68,000,000.00	1,325,000,046.88	18,540,000,000
2017-18	383,444.37			1,674,711.29	68,146,000.00	2,058,155.66	800,000,000.00		54.42		492,000,000.00	1,000,000.00	135,000,000.00	1,428,000,054.42	19,230,000,000
2018-19	389,660.28			1,817,936.38	73,974,000.00	2,207,596.66	800,000,000.00		60		463,000,000.00	-	197,000,000.00	1,460,000,060.00	20,260,000,000
2019-20	362,902.77			1,826,611.48	74,327,000.00	2,189,514.25	800,000,000.00		63.82		472,000,000.00	-	271,000,000.00	1,543,000,063.82	21,630,000,000

Sources for data

Column B - Australian Energy Update 2016 published by Office of the Chief Economist (OCE), department of innovation and from Australian Petroleum Statistics (APS) issued by OCE

Column C and D also comes from both Australian Energy Update 2016 and APS data

Column E - OCE, and its predecessor Bureau of Resources and Energy Economics (BREE) and Australian Bureau of Agricultural and Resource Economics (ABARE).

Column F - conversion to Barrels of oil equivalent was using the conversion calculator on the Santos Limited website <https://www.santos.com/conversion-calculator/>

Column G - OCE, and its predecessor Bureau of Resources and Energy Economics (BREE) and Australian Bureau of Agricultural and Resource Economics (ABARE).

Column H - PRRT revenue comes from Federal budgets since 1989-90

Column I - OCE, and Western Australia Department of Mines and Petroleum

Column J - Conversion using average exchange rates used by the Australian Bureau of Statistics (ABS) from international trade statistics

Column K and L - Western Australia state budgets

Column M - Queensland state budgets

Column O - Federal state budgets

The green highlights are forecasts by OCE, the PRRT forecasts are from the 2016-17 federal budget