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SYNOD OF VICTORIA AND TASMANIA

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Submission of the Synod of Victoria and Tasmania, Uniting Church in Australia on the *Treasury Laws Amendment (Petroleum Resource Rent Tax Reforms No. 1) Bill 2019*
15 January 2019

The Synod of Victoria and Tasmania, Uniting Church in Australia, welcomes the opportunity to provide a submission on the *Treasury Laws Amendment (Petroleum Resource Rent Tax Reforms No. 1) Bill 2019.*

The Unit continues to be perplexed why the Government believes 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 Government's own review noted that of the global natural gas market:[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.*
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> *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 Synod would prefer to see far less generous tax arrangements for natural gas development, even if that means less natural gas development at this time. The natural gas deposits will eventually be developed as the deposits in other parts of the world run out, and will

[1] 'Petroleum Resource Rent Tax Review', Australian Government, 13 April 2017, 175-176.

result in higher returns to the Australian community at that time. There is no pressing need for these deposits to be developed at this time.

The Synod supports the lowering of the uplift rates in the *Treasury Laws Amendment (Petroleum Resource Rent Tax Reforms No. 1) Bill 2019*, but believes they are still too generous at the cost of returns to the Australian community for things like aged care funding, funding for schools, funding for the health system, funding to address family violence and funding for disability services. Further, the Synod is disappointed the reduction in uplift rates only applies to future projects and does nothing to address the massive accumulated credits that apply to many of the existing projects.

As expressed in our earlier submission, we would have preferred the uplift rate to be set at the long term bond rate (LTBR) for those activities to which any uplift rate is applied to at all. The Synod is concerned that the different rates in the Bill still provide incentives to 'game the system' and seek to try and have expenditure classified into activities with the higher uplift rates. However, the Synod is pleased that after 10 years, the uplift rates drop to lower levels (the GDP factor in the case of exploration expenditure.

It remains our preferred position that the PRRT be replaced with a 10% royalty rate as it would deliver more return to the Australian community over the life of all natural gas developments and would provide greater parity with regards to royalties between onshore developments (that are subject to state royalty regimes) and offshore developments in Commonwealth waters.

The Synod supports the removal of onshore projects from the PRRT regime, as implemented by Schedule 2 of the Exposure Draft. As stated in the exposure draft explanatory materials, this change would address the integrity risk posed by transfers of exploration expenditure and removes the regulator burden associated with the PRRT for these projects, which will still be subject to State royalties.

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