

*Submission to the Treasury*

# Submission to the consultation on PRRT – anti- avoidance provisions and clarifying treatment of 'exploration' and MQPRs

*Climate Analytics*

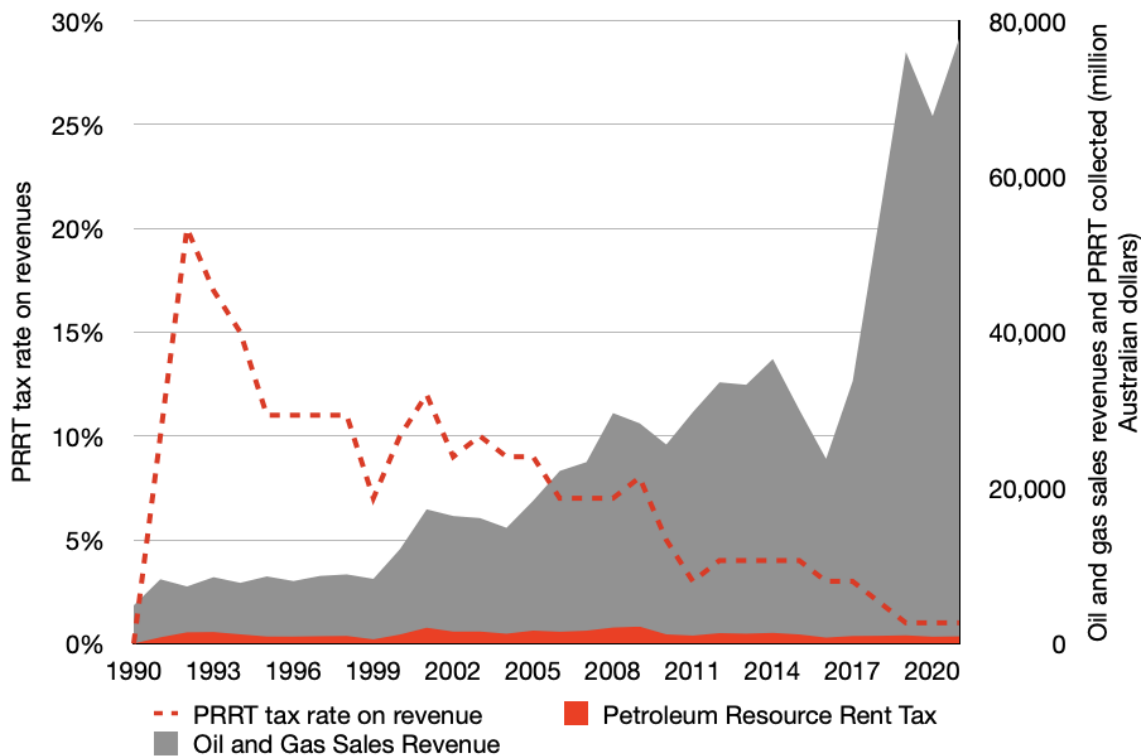
*February 2024*

Climate Analytics welcomes the opportunities to submit a response to the consultation on the Petroleum Resource Rent Tax (PRRT) – anti-avoidance provisions and clarifying treatment of ‘exploration’ and Mining, Quarrying or Prospecting Rights (MQPRs).

## The PRRT is not fit for purpose as a tax on the gas industry

The Australian Energy Producers, formerly known as the Australian Petroleum Production and Exploration Association (APPEA), provides oil and gas industry financial [surveys](#) that include revenues, taxes and charges. Their data show that, while the industry has experienced a sustained growth in revenues, incomes from the PRRT have remained steady. The effective amount of PRRT collected as share of revenues has collapsed.

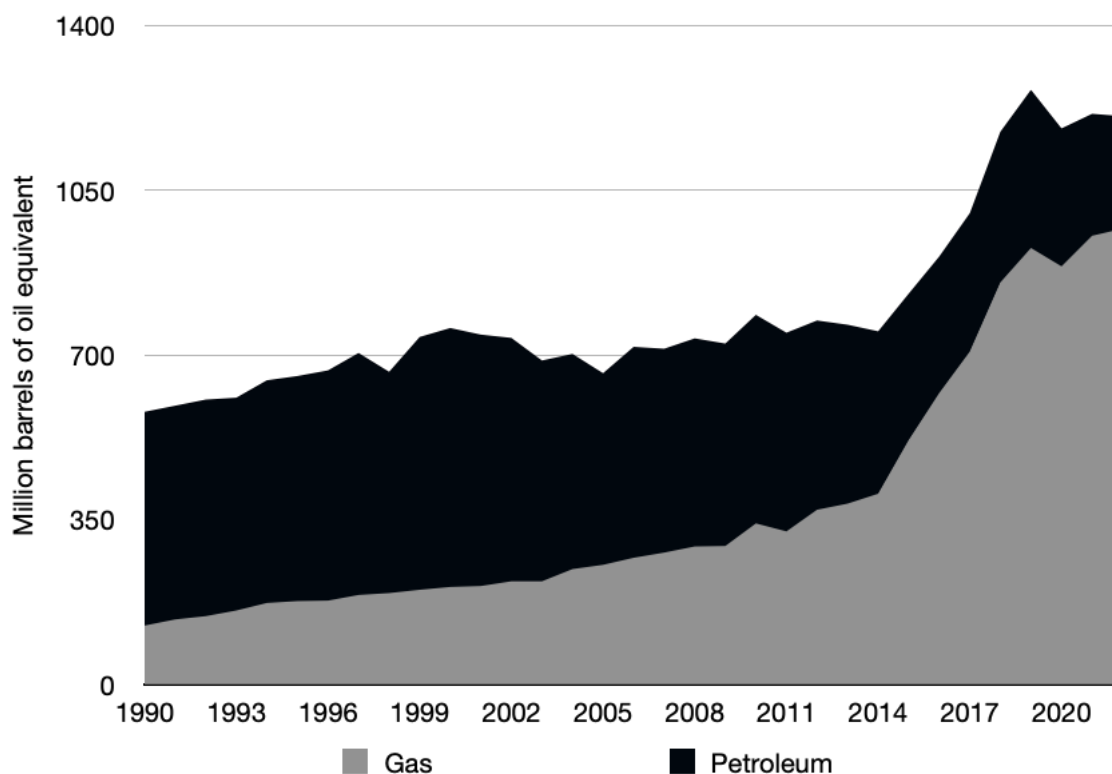
Figure 1: Oil and gas revenue compared to PRRT collection



Data from the APPEA Oil and Gas Industry Financial Survey (source: [APPEA](#)).

The divergence between revenues collected by the Australian Government from oil and gas producers on one hand, and their profits on the other hand, coincides with the shift from petroleum to gas production, allowed by the [AUD 300 billion](#) invested in the gas sector in Australia in the span of 13 years.

Figure 2: Australian oil and gas production



Production data from the Department of Industry in its *Resources and Energy Quarterly* (source: [Department of Industry](#)). Conversion rates from the 2021 *Statistical Review of World Energy* (source: [BP](#)). PRRT revenues from the APPEA.

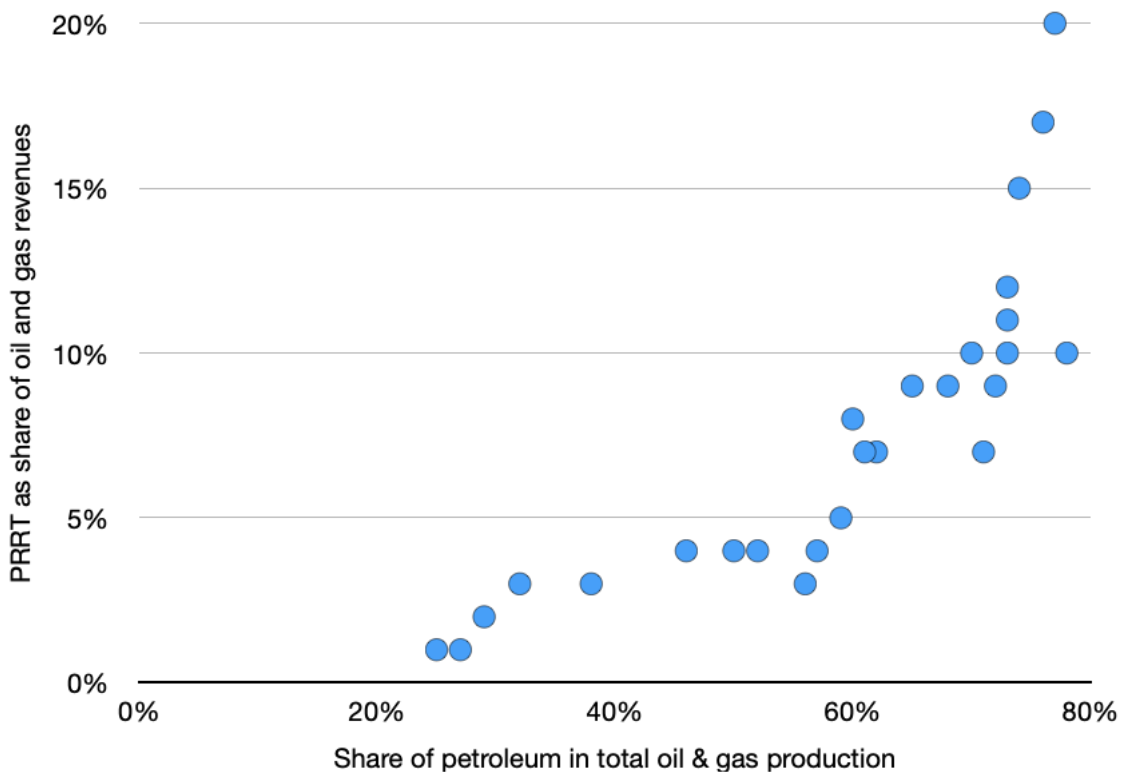
The shift from petroleum to gas has had deep consequences on the revenues collected from the PRRT, owing to the structure of the rent tax. Previous reviews of the PRRT and the associated gas transfer pricing rules have shown that the rent tax is not as effective for gas than it is for oil production. As presented in the [first 2023-24 Budget paper](#):

“LNG projects are highly capital intensive and, compared to oil projects, generally take much longer to become cash flow positive after commencing production. This impacts the PRRT collected from LNG projects, particularly where projects have very large carry-forward deductions that are uplifted for many years.”

These massive, sudden capital inflows explain why, “to date, not a single LNG project has paid any PRRT, and many are not expected to pay significant amounts of PRRT until the 2030s”. [An independent analysis](#) has found that for each dollar spent on Gorgon Front End Engineering Design in 2005, more than AUD 7 were deducted from taxes in 2017.

This phenomenon becomes apparent when comparing the proportion of PRRT in the revenues of oil and gas producers with the share of petroleum in total oil and gas production. As gas increasingly dominates Australia's offshore extraction industry over oil, the impact of PRRT on fossil fuel producers' finances diminishes.

Figure 3: Relationship between oil and gas production, and PRRT revenues



PRRT revenues from the APPEA. The share of petroleum in total oil and gas production was sourced from the Department of Industry’s Resources and Energy Quarterly (source: [Department of Industry](#)).

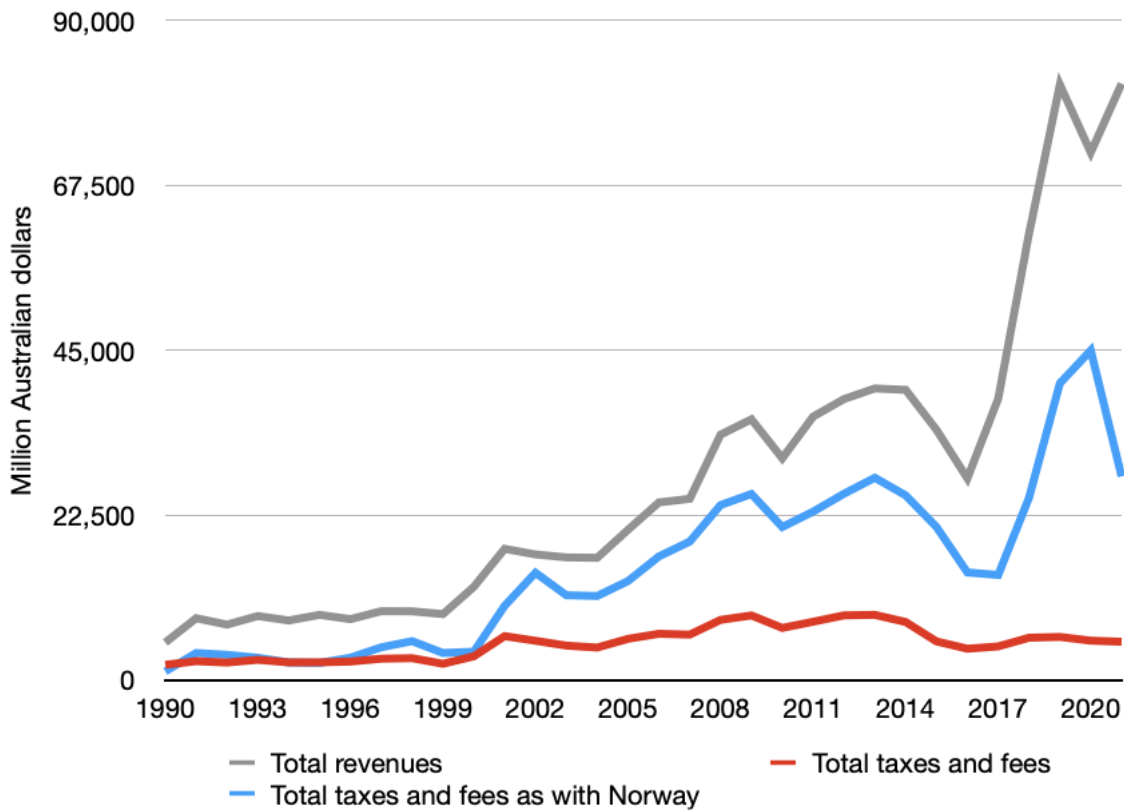
The tax taxation regime for LNG producers has been [documented](#) for many years. Researchers from the Australian National University have [called](#) the PRRT revenue collections “underwhelming” and found that “lessons can be learned from Australia’s experience with the LNG export sector, where benefit sharing has been lacking”. In her [submission](#) to the deductions cap reform, Federal Member for Warringah Zali Steggall calls the PRRT “the weakest resource tax in the world”.

### A more effective PRRT can contribute to the financial efforts necessary for the clean energy transition

The funds that could have been raised through a higher and more efficient Petroleum Resource Rent Tax could have been allocated to the clean energy transition, redirecting revenue streams from harmful activities to sectors with positive externalities.

As a comparison, if Australia had taxed its oil and gas industry at the same rate as Norway did theirs over the period 2011 - 2020, the Australian Government would have received over four times as much revenue.

Figure 4: Oil and gas revenues and PRRT



Revenues and taxes and fees sourced from the APPEA. Taxes and fees include the PRRT (17% of the total taxes and fees in 2021), production excise, royalties and fees (47%), corporate taxes (26%), and others (10%). Equivalents calculated by applying the yearly government revenue vs. industry revenue rate in Norway (source: [Australia Institute](#)).

Comparing Australia's revenues from oil and gas to other countries with significant levels of production can shed light on the disparities in tax collections on fossil fuels-related activities between governments.

On a per barrel of oil equivalent basis, the U.S. Federal Government, although not known for being tax-heavy, receives two to three times as much tax revenue from its oil and gas production on federal land as Australia does.

The values for Australia are conservative since tax revenues as reported by the APPEA include state-level collections. Norway's revenues per barrel are more volatile, but still significantly exceed those of Australia.

Table 1: Government tax revenue on oil and gas production, in Australian dollars per barrel of oil equivalent

	2017	2018	2019	2020	2021
Australia	\$2.3	\$2.1	\$1.8	\$1.6	\$1.7
U.S. Federal Land	\$5.2	\$6.7	\$7.8	\$5.2	\$6.7
Norway	\$9.1	\$16.8	\$14.2	\$(1.6)	\$33.5

Source: Data for Australia in Australian fiscal year, for the United States in American fiscal year, and Norway in civil year. Currencies converted using their respective yearly average exchange rates between 2016 and 2021. Statistics Norway notes that “negative taxes in 2020 are classified as capital transfers (Sources: [APPEA](#), [Australian Department of Industry, Science, and Resources](#), [Statistics Norway](#), [Norwegian Petroleum](#), U.S. Department of the Interior ([revenue](#) and [production](#) for federal lands, federal waters and Native American lands)).

In the [2017 PRRT review](#), the APPEA and the Business Council advised against making international comparisons with Qatar regarding LNG taxation. The APPEA argued that such comparisons obscure the fact that costs per barrels are higher than Australia than elsewhere, in alignment with findings from the [Oxford Institute for Energy Studies](#). This is, however, a problem that falls on the project developers and operator. It has also not stopped companies represented by the industry association from making record profits.

In the same document, the Business Council of Australia stated that, to make comparison between countries, “technical, geological and operational factors” of projects, “stage of the project life cycle”, “cost [recovery]”, “differences in input costs”, “taxes” over the “life of a project” need to be considered. Yet, most of this information is not made available to the public or would require extensive efforts to collect, highlighting the instrumentalisation of information asymmetry to restrict public debate around the topic.

The PRRT still holds significant potential to contribute to the transition towards cleaner energy sources. Reforming and increasing its revenues present an opportunity to better align Federal Government financial flows with Australia's international commitments.

Public investments can unlock substantial private investments in rapidly expanding sectors such as clean energy. The International Energy Agency (IEA) [estimates](#) that 70% of the funding required to achieve net zero emissions by 2050 will need to come from private entities. Reputex has [projected](#) that AUD 24 billion in public investments could catalyse AUD 76 billion in total investments as part of the Powering Australia Plan. For every dollar spent, more than two dollars are mobilised. Reputex’s findings align with the

average [annual financing](#) needed for clean energy from 2026 to 2030 from the IEA's 2021 Net Zero scenario.

To meet its 82% renewable generation target, Australia will need deploy [6 to 7 GW](#) of large-scale renewable energy projects annually from this year until the end of the decade, in addition to the sustained installation rooftop photovoltaic systems. Based on the levels of investment outlined in the updated [Capacity Investment Scheme](#), this effort will necessitate annual investments in new capacity ranging from AUD 13.5 to 16 billion, excluding the costs associated with firming and transmission infrastructure.

Beyond the power sector, transitioning the whole of the economy will also require significant additional investment. The [Intergenerational Report](#) cites the Australian Industry Energy Transformations Initiative, which has estimated that “\$225 billion of investment may be required by 2050, above business-as-usual levels, to transition the energy system and decarbonise heavy industries (iron and steel, aluminium, other metals, chemicals, and liquefied natural gas)”.

The average PRRT revenues from 2017 to 2021 were AUD 1 billion. If the revenues levied from the PRRT were to remain steady, it could contribute only 11% of the annual investments needed in large-scale renewable energy projects, or 4% of the annualised requirements for decarbonising both the energy and industry systems. With much of the current incomes coming from the declining oil sector, this is an optimistic assumption.

Fossil fuel extraction, indirectly encouraged by low PRRT collections, raises the levels of investments needed for mitigation and adaptation efforts by exacerbating the climate crisis. The substantial profits generated from exploiting domestic resources contribute to global energy transformation inertia by reinforcing already well-entrenched rent-seeking interests among the industry.

These externalities are currently far from captured within Australia's policy framework, with the Safeguard Mechanism reform solely focusing on domestic emissions and allowing the use of [flawed](#) offsets for producers to reach their mandatory reduction targets. The design of a systemic PRRT reform that “better reflect[s] the contributions and risks of the notional entities that comprise the LNG value chain”, as announced by 2023/24 Budget's first paper, must account for these effects that ultimately impact citizens.

An adequate stream of revenues levied on the gas industry would deliver much-needed funding to accelerate the transition, with socio-economic co-benefits. Current proposals, [expected](#) to bring in an additional AUD 600 million, represent a drop in the bucket of the capital investments needed, in a time when fossil fuel producers are making record profits at the expense of climate. An effective and efficient reform of the PRRT requires increasing the amount of money it collects.

## The best time to reform the PRRT was ten years ago, the second best time is now

The [updated](#) IEA Net Zero Emissions roadmap shows that global gas supply needs to decline by 2 per cent each year until 2030, and 9% between 2030 and 2040 to align with their 1.5°C compatible pathway. The IEA has found that no new long-lead time upstream conventional gas projects are needed to meet demand. The Australia Industry Energy Transition Initiative, whose results are cited in the latest Intergenerational report, [found](#) that to align with the 2021 Net Zero Emissions roadmap, Australia LNG exports would need to decrease by 36% between 2020 and 2030.

The Federal Government has iterated on multiple occasion its commitment to the global objective to limit global temperature rises to 1.5 degrees. At COP28, Minister for Climate Change and Energy Chris Bowen has [said](#) that “the science tells us that, to keep 1.5 alive, we must peak emissions by 2025, reduce emissions by 43% by 2030 and 60% by 2035”, in line with the IPCC findings. Australia signed the final [text](#) of the Global Stocktake, with the commitment of “transitioning away from fossil fuels in energy systems, in a just, orderly and equitable manner, accelerating action in this critical decade, so as to achieve net zero by 2050 in keeping with the science”.

This evolving context will affect the revenues the PRRT can levy from gas projects. The final report of the Review of Gas Transfer Pricing Arrangements [acknowledges](#) that “the future of LNG demand after 2030 is uncertain”. For the [2017 PRRT review](#), the APPEA argued that production costs for Australian facilities were higher than in the rest of the world, which questions Australian LNG cost-competitiveness prospects in a world with declining demand. The projected income from the reform, as modelled by the Federal Government, are dependent on hypothetical projections of financial indicators from industrial facilities, themselves tied to production. It is clear that these projections must be informed by the goal of limiting global temperature rises below 1.5°C, a goal the Australian Government says it is committed to.

To guarantee adequate revenue streams from the PRRT despite declining production, prompt implementation of an effective reform is necessary to capitalise on current levels of LNG exports while minimising the uncertainties related to the longer-terms, declining outlook pathways for gas production. In this environment, the tax exemption for new liquefied natural gas projects - which may end up as stranded assets - until their seventh year of production, represents a missed opportunity to generate public funds, at odds with the government’s own [call](#) to act now.

Climate Analytics recommends the Federal Government to reform the PRRT to align with its climate commitments, and so the Australian people get their [fair share](#).