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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 (2019 Petroleum Resource Rent Tax Reforms No. 1) Bill 2019* 14 March 2019

The Synod of Victoria and Tasmania, Uniting Church in Australia, welcomes the opportunity to provide a submission on the *Treasury Laws Amendment (2019 Petroleum Resource Rent Tax Reforms No. 1) Bill 2019.* The Synod requests that the Committee recommends the Bill be passed by the Parliament, but with amendments. We are concerned that is this Bill is not passed by the Parliament, then no reform to the PRRT will occur the current flawed arrangement will persist for the foreseeable future while the gas reserves are depleted.

The Synod 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 Petroleum Resource Rent Tax (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 via the PRRT.

The latest analysis from the International Energy Agency points out that there was a pick up in approvals of gas projects globally in the second half of 2018, led by a major new project on

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

Canada's west coast.[2] They further point out that Qatar is among the frontrunners developing new low-cost export capacity, based on its huge potential to tap into liquids-rich and leverage its vast existing infrastructure complex at Ras Laffan. Additionally, they state there is a long list of other potential export projects around the world, from the Russian Artic to East Africa.[3] They conclude that natural gas supply in the future looks increasingly diverse and competitive.

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 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 if it comes at the cost of a better share being returned for the benefit of the Australian community through increased government revenues.

The Synod supports the lowering of the uplift rates in the *Treasury Laws Amendment (2019 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.

The Synod asks that the Committee recommend 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 of uplift would provide incentives to 'game the system' and seek to try and have expenditure classified into activities with the higher uplift rate.

The Synod is pleased that after 10 years, the uplift rates drop to lower levels (the GDP factor in the case of exploration 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 and community's share.

The Synod is concern that providing tax offsets for exploration activities makes the community share the risk of revenue loss through exploration costs 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.

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 Bill. As stated in the explanatory materials and the Minister's second reading speech, this change would address the integrity risk posed by transfers of exploration

[2] Peter Zeniewski and Tae-Yoon Kim, 'Commentary: Signposts for the gas outlook', International Energy Agency, 7 February 2019.
[3] Peter Zeniewski and Tae-Yoon Kim, 'Commentary: Signposts for the gas outlook', International Energy Agency, 7 February 2019.

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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