Australian subsidies to coal, oil and gas production and use

1. Why subsidising fossil fuel production and use is a problem

Meeting the temperature goals of the Paris Agreement by limiting global warming to less than 2 C and as close to 1.5 C as possible requires a rapid transition away from coal, oil and gas as energy sources and a rapid increase in investment in renewable energy, energy efficiency and sustainable transport. By signing the Paris Agreement, Australia committed to "Making finance flows consistent with a pathway towards low greenhouse gas emissions".[1] In the COP26 Glasgow Pact, Australia committed to end "inefficient fossil fuel subsidies". Yet the Australian government continues to provide financial incentives for existing and expanded use and extraction of coal, oil and gas. As the International Energy Agency outlines, removing fossil fuel subsidies is beneficial for government budgets, for climate change mitigation and for efficient energy markets.[2]

This paper identifies key Federal fossil fuel subsidies and summarises the case for removing and redirecting this financial support to clean replacements. It seeks a commitment from all parties and candidates contesting the 2022 Federal election to: a) rule out any new fossil fuel subsidies, b) commission an independent review in 2022 of all existing Federal Government fossil fuel subsidies and opportunities to redirect these subsidies to activities that support rapid emissions reductions consistent with the Paris Agreement temperature targets, c) clarify lending conditions for the Northern Australian Infrastructure Facility and Export Finance Australia to ensure that fossil fuel projects are ineligible for concessional finance.

2. Australia remains overly reliant on fossil fuels and has no economy-wide plan to phase out fossil fuels.

Australia's energy system is still dominated by coal, oil and gas. Despite impressive growth of renewable energy in the electricity sector, now over 24% of all power generation[3], less than 10% of total primary energy comes from renewable sources as shown in Figure 1 below.

Coal for domestic consumption is in decline, but both oil and gas use are still increasing in Australia. The single biggest consumer of gas in Australia is now the gas industry. Liquefied Natural Gas (LNG) export facilities use large amounts of gas to compress and refrigerate gas for export. Mining coal is also a major source of

[1] Paris Agreement, Article 2, https://unfccc.int/files/meetings/paris_nov_2015/application/pdf/paris_agreement_english_.pdf
[2] https://www.iea.org/topics/energy-subsidies
[3] Australian Energy Statistics 2021 Energy Update Report, https://www.energy.gov.au/sites/default/files/Australian%20Energy%20Statistics%202021%20Energy%20Update%20Report.pdf, p.3

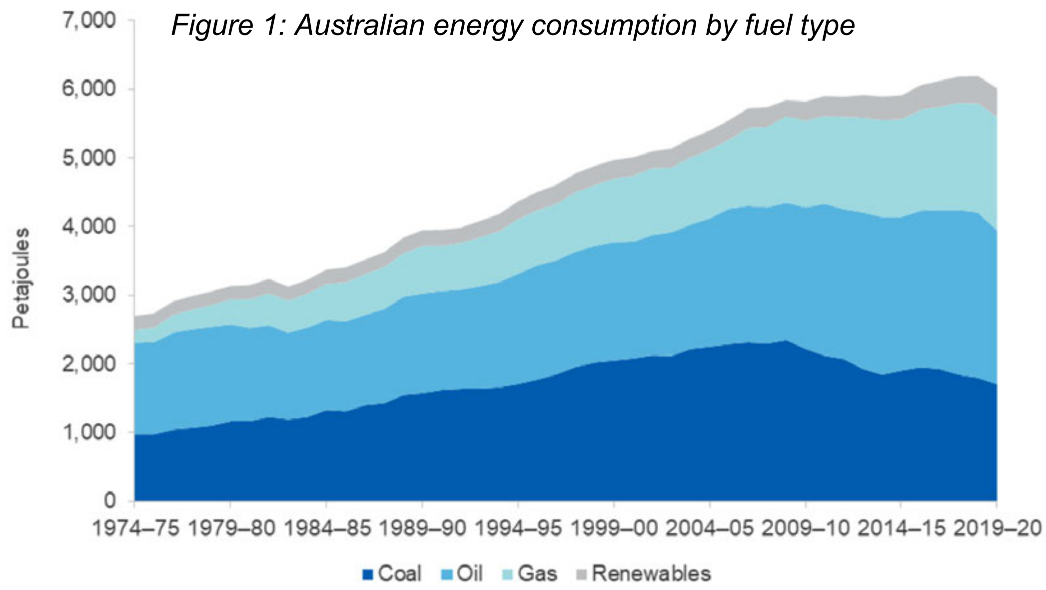
emissions from diesel combustion and methane leaks.

The expansion of fossil fuel exports over the past decade has increased emissions in Australia and abroad. The carbon in Australian fossil fuel exports is more than twice as large as Australia's domestic emissions, with Australia now the third largest fossil fuel exporter behind Russia and Saudi Arabia.[4]

Meanwhile Australia's transport emissions have grown sharply over the past decade and current taxation and fiscal incentives have incentivised an emissions intensive vehicle fleet.

Emissions reduction targets consistent with the Paris Agreement will be impossible unless emissions from extraction and use of coal, oil and gas stop growing and start declining rapidly. It is both alarming and counter-intuitive then that both national and state governments continue to provide considerable tax and financial incentives and funding to encourage the production and consumption of fossil fuels.

Figure 1: Australian energy consumption by fuel type



Source: Department of Industry, Science, Energy and Resources (2021) *Australian Energy Statistics*, Table C

Recent analysis by The Australia Institute found that in 2020-21, Australian Federal and state governments provided a total of $10.3 billion worth of spending and tax breaks to assist fossil fuel industries.

In addition to ongoing subsidies, the federal government has in this term of government committed billions of dollars in new funding to expand coal, oil and gas production and consumption. Over State and Federal Budget forward estimates, $8.3 billion is committed to subsidising coal and gas extraction, coal-fired power, coal railways, ports, carbon capture and storage, and other measures.[5]

These transfers of wealth from Australian taxpayers to the coal, oil and gas industries contribute to current and projected budget deficits, fuel climate change and deter investment in renewable energy and other climate change solutions.

The IMF has estimated fossil fuel subsidies are much larger, totalling over US$5 trillion globally with an estimate of US$45 billion for Australia. This includes the health, climate and other pollution costs that Australia lets fossil fuel companies impose on Australians without financial penalty. However subsidies discussed below relate only

[4] The Australia Institute, High Carbon from a Land Down Under

[5] The Australia Institute, *Fossil fuel subsidies in Australia Federal and state government assistance to fossil fuel producers and major users 2020-21*, April 2021, https://australiainstitute.org.au/report/fossil-fuel-subsidies-in-australia/

to fiscal payments or concessions to fossil fuel companies.[6]

3. Action required by the next Australian Parliament on Fossil Fuel subsidies

Consistent with Australia's Paris Agreement commitments, the next Australian Parliament should prioritise the removal of Federal Government subsidies to coal, oil and gas and instead ensure public funds are being used to support the deployment of clean energy solutions. To commence this process Australian environment and civil society organisations are seeking the following commitments from all parties contesting the 2022 Federal election:

a) **Commitment to ruling out new fossil fuel subsidies:** The first critical step towards reducing fossil fuel subsidies is ensuring that there are no new commitments of public money to supporting the extraction or consumption of fossil fuels or associated infrastructure. Rather, public funds should support zero emissions energy sources and processes, energy efficiency or other investments consistent with rapidly reducing emissions as required by the Paris Agreement.
b) **Commitment to undertaking a review of all existing Federal Fossil fuel subsidies by the end of 2022 to inform the next Federal Budget:** The next Federal Government should commission an independent review of federal fossil fuel subsidies, and opportunities to reform or repurpose these subsidies to ensure federal expenditure and tax concessions are aligned with rapid emissions reductions required under the Paris Agreement and to avoid the worst impacts of climate change. The review should be completed in 2022 in time to inform the 2023-24 Federal Budget.
c) **Commitment to amend lending conditions for the Northern Australian Infrastructure Facility and Export Finance Australia** to ensure that fossil fuel projects are ineligible for concessional finance.

4. A summary of existing Federal Government subsidies to coal, oil and gas and reform opportunities

While there is considerable debate about the definition of fossil fuel subsidies, key Federal government tax concessions and expenditure items that clearly incentivise fossil fuel use are summarised in the table below, and then in more detail beneath, along with possible pathways to reform these programs to be consistent with Paris Agreement temperature goals.[7] The final section of this briefing outlines further Federal programs and subsidies to fossil fuel companies.

Table 1. Summary of Federal Fossil Fuel subsidies

Program name	Value of subsidy	New or ongoing subsidy
The Morrison Government's measures to accelerate new gas basins (so-called 'Gas-fired recovery')	**Over $500 million**, and more promised	New this term of government
Kurri Kurri gas-burning power station	**$600 million**, and more promised	New this term of government

[6] IMF, *Fossil Fuel Subsidies,* https://www.imf.org/en/Topics/climate-change/energy-subsidies
[7] A more detailed discussion about what constitutes a fossil fuel subsidy can be found in The Australia Institute report listed above.

Fuel Tax Credits Scheme	**$8 billion**; coal mining the single biggest beneficiary	Ongoing in Federal Budget
Tax concessions for gas companies	**Billions of dollars** lost annually to tax not paid by gas companies, due to design of PRRT. **$165m/ year** of subsidies specifically identified by Treasury.	Ongoing in Federal Budget

4.1 Morrison Government's measures to accelerate new gas basins (the so-called 'Gas Fired Recovery')

How it works: Following the establishment of the Morrison Government's COVID Commission the Federal Government has delivered significant funding for new gas infrastructure and exploration, including the "Beetaloo Cooperative Drilling Program", numerous "Strategic Basin Plans", a "National Gas Infrastructure Plan" and an associated "Future Gas Infrastructure Investment Framework". Governance arrangements for these programs are poor to non-existent and beneficiaries of government gas project funding include major Liberal party donors. Pipeline subsidies have been opposed by large energy corporates (APA, AGL and Origin) and employer and employee groups who have instead called for policy for energy efficiency and electrification, which were completely ignored in the government's plans.

Cost to budget: More than $500 million, including: $53m for plans and research under the Morrison Government's 'Gas Fired Recovery', $50m to companies exploring in the Beetaloo Basin, $174m for "NT Gas Roads Upgrades Program", $39m for gas network projects, $81m for four new gas basin plans and $111m to "Develop the North" including Beetaloo and Darwin gas-related industry. Under the NGIP and "Gas Infrastructure Investment Framework", the government plans further financial support to build gas pipelines across the country. Further subsidies may follow for high cost, remote gas fields like Beetaloo that do not stack up economically without government subsidies. Reputex has found the Beetaloo gas basin is highly marginal and likely uncommercial, especially given requirements for emission offsets.[8]

Reform to align with Paris Agreement: stop all subsidies to opening new gas basins or promoting fossil fuel extraction or consumption.

4.2 Kurri Kurri gas power station and other subsidised fossil-fuel-fired power stations

How it works: The Federal Government has provided capital to the government-owned corporation Snowy Hydro to build a gas-burning power station at Kurri Kurri, despite experts and the market operator's plans saying it is not needed, and despite Snowy Hydro's existing gas peaker station not running at key peak demand moments. The business case, which the Morrison Government is refusing to release in full, does not take account of NSW Government investment to boost renewable energy or the AEMO Integrated System Plan which sees gas power capacity and usage fall, not rise. The power station is not convertible to renewable hydrogen without completely rebuilding the plant and its pipeline and storage infrastructure. The Government is also pushing ahead with the Underwriting New Generation Investments (UNGI) scheme, using regulations to subsidise new dispatchable power stations. Projects were 'shortlisted' by the Minister and those pursued were all gas and coal projects. Pumped hydro projects on the shortlist have not to date been progressed.

Cost to budget: more than $600m in capital investment which risks becoming a stranded asset reducing Snowy Hydro's future profitability.

Reform to align with Paris Agreement: engage with Snowy Hydro pursuing opportunities for non fossil fuel based electricity generation or storage. Disallow UNGI regulation.

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[8] Reputex Analysis of Northern Territory gas basin emissions and carbon costs https //www reputex com/research-insights/report-analysis-of-northern-territory-gas-basin-ghg-emissions-and-carbon-costs/

4.3 Fuel Tax Credit Scheme (FTCS)

How it works: Fuel tax credits provide businesses with a credit for the fuel tax (excise or customs duty) included in the price of fuel used in machinery, plant, equipment, heavy vehicles and light vehicles travelling off public roads or on private roads. The FTCS promotes fuel use while deterring investment in cleaner alternatives. Mining companies are the largest beneficiaries, especially coal mining, which in turn makes fossil fuel production more profitable. FTCS has no coherent rationale. While the original logic of the scheme was that fuel tax was paid to contribute towards road maintenance and that therefore fuel purchased for off-road use would be tax exempt, there is in fact no longer any link between fuel taxes and road expenditure. Most road expenditure is funded by state and local governments, not the Commonwealth. Rather the Commonwealth collects fuel excise as a contribution towards consolidated revenue and spends according to national priorities. FTCS is an arbitrary subsidy that encourages fossil fuel consumption and production.

Annual cost to budget: $7.8bn in 2018-19, of which $3.2bn went to mining companies, including $1.5bn to coal mining and other fossil fuel extraction[9]. The budget projects the total cost to reach $8.9bn by 2023-24.[10]

Reform to align with Paris Agreement: phase out the FTCS gradually over a fixed time frame (e.g 5-10 years) and redirect avoided expenditure to provide sector-specific financial support to drive investment in cleaner alternatives (e.g. electric farm and mining equipment, batteries, green hydrogen and ammonia-powered shipping and public transport and green infrastructure). Impacts on certain sectors or firms (e.g. family-owned farms or fishing operations) could be mitigated by limiting the phase-out to larger firms only and/or phasing out over different timeframes for different sectors.

4.4 Tax concessions for oil and gas companies

How it works: The Petroleum Resource Rent Tax delivers little in revenue to the Australian Government due to design deficiencies. Many oil and gas corporations pay little or no PRRT, or indeed company tax, and some companies have declared in their financial reports that their projects will never pay tax. Treasury identifies three specific concessions that reduce tax liabilities under the PRRT: ‘expenditure uplift rate’, ‘gas transfer price regulations’ ‘starting base and uplift rate for capital assets’.

Annual cost to budget: Billions of dollars are lost annually in foregone tax on gas exports. $165 million is lost annually from the three concessions identified by the Treasury, when compared with tax regimes in other countries.

Reform to align with Paris Agreement: immediately remove all PRRT concessions identified by the Treasury. Pursue broader reform to PRRT to ensure it delivers revenue, for example through an additional fixed royalty.

5. Other Federal Government programs that subsidise fossil fuel extraction and combustion

While the programs above are quantifiable and constitute explicit fossil fuel subsidies, the Federal Government supports fossil fuel extraction and combustion in other ways including:

- **Government banks lending to coal and gas :** government lenders like the Northern Australia Infrastructure Facility (NAIF) and Export Finance Australia

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[9] Commonwea th Budget and Tax Stat st cs, c ted n The Australia Institute, *Fossil fuel subsidies in Australia Federal and state government assistance to fossil fuel producers and major users 2020-21*, April 2021,
[10] Commonwea th Budget and Tax Stat st cs, c ted n The Australia Institute, *Fossil fuel subsidies in Australia Federal and state government assistance to fossil fuel producers and major users 2020-21*, April 2021,

(EFA, formerly EFIC) have funded numerous fossil fuel projects and associated infrastructure including mines and ports. NAIF planned to fund Adani's coal rail line. It has succeeded in funding coal mines and gas infrastructure. EFA has funded $1.6 billion of fossil fuel projects since 2009, including Wiggins Island Coal Terminal and Gladstone LNG, both of which have been financial disasters, and PNG LNG, which sparked civil conflict.[11] The next Federal Parliament should require NAIF and EFA to align with the Paris Agreement and IEA Net Zero scenario, including preventing NAIF and EFA from funding projects involving new fossil fuel extraction or combustion.

- **Funding for dirty hydrogen and carbon capture and storage:** The federal government is helping the gas industry greenwash its push for new gas fields by providing substantial funding to Carbon Capture and Storage (CCS) and fossil-fuel based hydrogen. This term of government, **$1.6 billion** has been made available to CCS and hydrogen, much of which will go to fossil fuel projects. Gas-based hydrogen (as opposed to renewable hydrogen) is an old, large and highly polluting industry that does not need government funding. CCS has already received billions from the Australian government over the past decade with poor results. In the IEA's net zero roadmap, there is no scope for any new gas fields from 2021 onwards, and only modest use of CCS focused on 'hard to abate' industry sectors (like cement and steel), rather than in new fossil fuel extraction. The next Federal Parliament should ensure that only renewable hydrogen projects are eligible for any government funding, and end all funding to CCS linked to fossil fuel production or combustion and instead redirect any support for CCS to 'hard to abate' sectors beyond the energy sector.

- **Taxpayers picking up the rehabilitation and decommissioning costs for fossil fuel projects:** Inadequate environment laws and rehabilitation provisions leave Australian taxpayers exposed to the environmental and financial costs when fossil fuel projects close suddenly or unexpectedly due to changed market conditions. In offshore oil and gas, the total decommissioning liabilities run into tens of billions and are not adequately covered by company finances. Recently the Australian government was forced to take over decommissioning liabilities for the Northern Endeavour, a floating production and storage facility previously owned by Woodside who was allowed to sell it to a smaller company unable to maintain it. In response, the government has imposed a once off levy on the whole industry to fund decommissioning of this one facility. Without extending such measures, the huge amount of decommissioning still to come poses enormous risks to the environment and the government budget.

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[11] Jubilee Australia Hot Money Australian Taxpayers Financing Fossil Fuels July 2021 https //www jubileeaustralia org/resources/publications/hot-money-2021