



TOTAL ENVIRONMENT CENTRE



Australian  
**Conservation**  
Foundation



Submission to

**Inquiry into the provisions of the Tax Laws Amendment (2004  
Measures No. 7) Bill 2004**

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## **Submission to Inquiry into the provisions of the Tax Laws Amendment (2004 Measures No. 7) Bill 2004**

The provision of new tax incentives for fossil fuel exploration in 'frontier areas' is opposed as it would be environmentally damaging, economically retrograde and a threat to sensitive marine areas, including the Great Barrier Reef and the Sydney Basin. Significant subsidies already exist for fossil fuel exploration and production. These subsidies can already be described as 'perverse' as they encourage environmental degradation, primarily in the form of the production of greenhouse emissions, the key cause of global warming. In addition, the petroleum industry is in decline as world resources are depleted. To provide incentives for the further depletion of these resources at the expense of subsidies for more appropriate, renewable energy technologies is not in the interests of Australians.

### **1. Climate change**

This submission is made in the context of the scientifically confirmed global warming and its significant economic, social and environmental costs.

The effects of climate change on Australia, identified by the CSIRO<sup>1</sup>, include:

- Less water for cities, agriculture and natural ecosystems;
- Southward spread of mosquito-borne diseases;
- Greater fire risk for forests and urban areas;
- Stronger tropical cyclones increasing coastal inundation and property damage;
- Bleaching of coral on the Great Barrier Reef;
- Salt-water intrusion into Kakadu wetlands due to sea-level rise; and,
- Reduced biodiversity.

All countries that have ratified the United Nations Framework Convention on Climate Change (UNFCCC), including Australia, have an obligation to take action to prevent dangerous climate change. To do so, the global average warming needs to be limited to a peak of less than 2 °C above pre-industrial times and should be reduced as fast as possible from this peak. To date, Australian average temperatures have risen by 0.7 °C over the last century.<sup>2</sup> To prevent an increase in temperature of 2 °C, industrialized countries need to reduce greenhouse emissions by 60-80% by 2050, with further reductions in global emissions by 2100.

These cuts are challenging but achievable, given political will, through much greater utilisation of renewable energy, energy efficiency, demand management and *a reduction in the use of fossil fuels*.

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<sup>1</sup> CSIRO, *Future Climate Change in Australia*, 2002 at: [http://www.dar.csiro.au/publications/cechet\\_2002a.pdf](http://www.dar.csiro.au/publications/cechet_2002a.pdf)

<sup>2</sup> Australian Government, Department of Environment and Heritage, *Climate Change - An Australian Guide to the Science and Potential Impacts*, 2003, p. 3.

## **2. Tax incentives for fossil fuel exploration subsidise greenhouse emissions**

Direct and indirect subsidies to fossil fuel production and consumption are already substantial, and have been estimated between \$6 billion<sup>3</sup> and \$9 billion<sup>4</sup> per year. These subsidies, including tax incentives, encourage greater consumption of fossil fuels and the production of more greenhouse emissions. They act as a structural barrier to greenhouse gas abatement.

The following special deductions (from company tax) were already available for companies involved in petroleum exploration and development activities in 2003:<sup>5</sup>

- immediate deduction of petroleum exploration and prospecting expenditures;
- immediate deduction of operating costs;
- immediate deduction of capital and current environment protection expenditures (except for plant subject to depreciation) on pollution control or waste management;
- a deduction for Environment Impact Statement capital costs over ten years or the life of the project, whichever is the lesser;
- immediate deduction of certain mine-site rehabilitation costs including expenditure associated with the removal of offshore platforms; and
- deductions for exploration and allowable capital expenditure are deductible without limit, with any excess to contribute to a tax loss for the year.

These deductions are in conflict with the imperative to reduce the use of fossil fuels to address dangerous climate change. In this context, the introduction of a further tax incentive for the exploration of fossil fuels is inappropriate. It is also economically inefficient as it would exaggerate existing negative environmental externalities, resulting in more extreme market failure and a reduction in economic efficiency.

## **3. Tax incentives should be adopted for clean energy technologies**

In addition to the greenhouse liability of fossil fuels, this petroleum and gas are currently being depleted and face exhaustion in the near term. To invest in the exploration for these fossil fuels through a generous tax concession is counter to long-term energy security, which will increasingly need to rely on new, renewable technologies.

Energy supply and greenhouse abatement objectives can be better met by allocating further tax concessions to renewable energy and energy efficiency, rather than supporting more high-risk, environmentally damaging fossil fuel production.

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<sup>3</sup> Commonwealth of Australia Senate Environment, Communications, Information Technology and the Arts References Committee, 'The Heat Is On: Australia's Greenhouse Future', Canberra, November 2000

<sup>4</sup> Institute for Sustainable Futures, *Subsidies that Encourage Fossil Fuel Use in Australia*, 2003, p. 35

<sup>5</sup> Institute for Sustainable Futures, *Subsidies that Encourage Fossil Fuel Use in Australia*, 2003, p. 11-12

#### **4. Protection of Australia's coast**

It is highly inappropriate that exploration just outside the boundaries of the World Heritage Area of the Great Barrier Reef is being encouraged by a generous tax concession rate of 150%.

The areas east of the Great Barrier Reef Marine Park include the Coral Sea reefs and surrounding waters of the Coral Sea. Major reef systems include: Osprey Reef, the already highly protected Lihou Reef (an existing National Nature Reserve), Marion Reef, Flinders Reef, the Willis Group, Coringa Islands and the Saumarez Reefs. These areas should be provided with additional protection and should not be made available to oil exploration in or near their borders.

The Great Barrier Reef is a priceless environmental and economic asset, as is the Sydney Basin. Both are a source of income from tourism and have inherent environmental and ecological value. A report prepared by Yale University<sup>6</sup> estimated the economic value of the Great Barrier Reef to be worth 57 billion to the international community. Allowing for oil exploration would only serve to jeopardise this valuable economic resource.

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<sup>6</sup> Robert Mendelsohn, "Valuing Coral Reefs: A Travel Cost Analysis of the Great Barrier Reef," (with L. Carr), *Ambio*, 32:353-357, 2003