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Senate Standing Committees on Economics
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Submission of the Justice and International Mission Unit, Synod of Victoria and Tasmania, Uniting Church in Australia to Senate inquiry into corporate tax avoidance – inquiry into Australia's offshore oil and gas industry
31 March 2017

The Justice and International Mission Unit, Synod of Victoria and Tasmania, Uniting Church in Australia, welcomes the opportunity to provide a submission on the corporate tax avoidance as it relates to Australia's offshore oil and gas industry. We endorse the submission of the Tax Justice Network Australia, of which we are a member.

The Unit is of the view that the Petroleum Rent Resource Tax (PRRT) or an alternative royalty regime should be designed with the sole aim of an equitable return for the Australian public over time. Inherent to this will be the need to design the tax or royalty regime in a way that allows profitable projects to be developed and exploited, as if taxes or royalties are set too high no projects will go ahead and there would be no return for the Australian public, failing the aim of the tax or royalty regime. However, it should also be noted that the Australian Government cannot seek to please every multinational corporation wishing to undertake gas exploitation, as some will have unrealistically high expectations of internal rates of return after tax that would unreasonably impact on the ability of the Australian Government to gain an equitable return for the Australian public. Further the Unit is concerned that the current design of the PRRT allows multinational gas corporations to undertake activities that ensure they will never have to pay anything to the PRRT and thus get to extract the natural gas that belongs to the Australian public without having to make any payment for the gas itself.

The return to the Australian public is vitally important so that the Australian Government can fund the services we need for a decent society, including our education system, health care, aged care, and law enforcement and regulatory agencies which are under resourced almost across the board compared to the scale of criminal activity they face.

The Unit fears the current design of the PRRT is to stimulate exploitation of Australia's non-renewable oil and gas reserves as soon as possible, rather than across a period of time when the return to the Australian public would be greatest. Based on the best available long-term predictions of demand for natural gas and natural gas pricing, the PRRT appears to dud the Australian public in favour of foreign multinational corporations.

Thus the Unit favours the introduction of a royalty regime on the five new LNG projects in Commonwealth waters (Gorgon, Wheatstone, Ichthys, Pluto and Prelude), as well as any future gas field developments, as such a regime will be harder for the multinational enterprises (MNEs) to game and avoid paying compared to the PRRT.

The International Energy Agency (IEA) latest assessment of global energy needs and consumption, released in November 2016, predicts as their main scenario a 30% rise in global energy demand to 2040. Natural gas fares best among the fossil fuels, with consumption rising by 50%.[1] The IEA state in relation to the future of oil and gas demand "For the moment, the collective signal sent by governments in their climate pledges (and therefore reflected in our main scenario) is that fossil fuels, in particular natural gas and oil, will continue to be a bedrock of the global energy system for many decades to come…."[2]

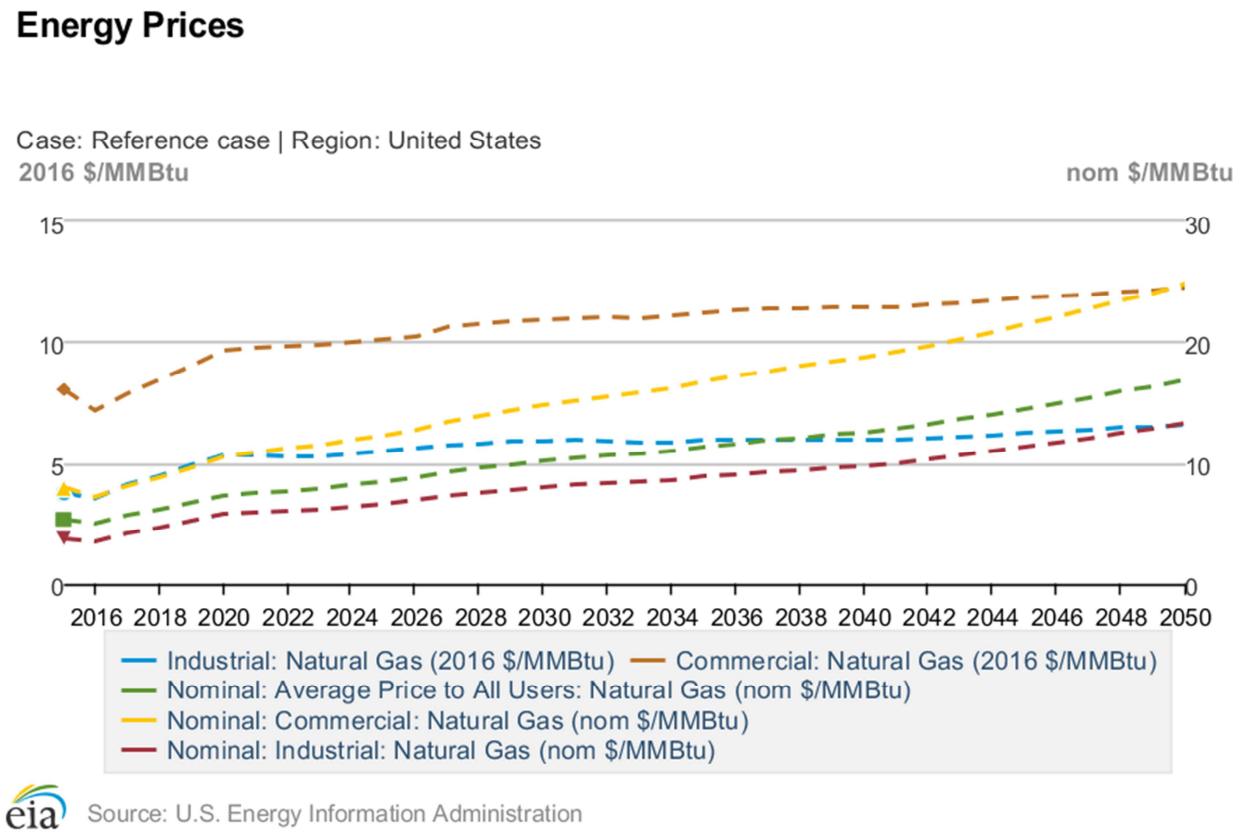
The IEA predicts a 1.5% annual rate of growth in natural gas demand to 2040, but notes markets, business models and pricing arrangements are all in flux. Gas consumption increases almost everywhere, with the main exception of Japan where it falls back as nuclear power is reintroduced. China (where consumption grows by more than 400 billion cubic metres) and the Middle East are the largest sources of growth. However, the IEA questions how quickly a market currently awash with gas can rebalance, especially with another 130 bcm of liquefaction capacity under construction, primarily in the United States and Australia.[3] This calls into question the design of the PRRT, which aims to stimulate exploitation of Australia's natural gas resources as soon as possible, rather than at the time that would be most optimal for the greatest return to the Australian public.

The IEA assumes a marked change from the previous system of strong, fixed-term relationships between suppliers and a defined group of customers, in favour of more competitive and flexible arrangements, including greater reliance on prices set by gas-to-gas competition. This shift is catalysed by the increasing availability of footloose US LNG cargoes and the arrival in the 2020s of other new exporters, notably in East Africa, as well as the diversity brought to global supply by the continued, if uneven, spread of the unconventional gas revolution. Floating storage and regasification units help to unlock new and smaller markets for LNG, whose overall share in long-distance gas trade grows from 42% in 2014 to 53% in 2040. But uncertainty over the direction of this commercial transition could delay decisions on new upstream and transportation projects, posing the risk of a hard landing for markets once the current oversupply is absorbed. The IEA believes that export-oriented producers have to work hard to control costs in the face of strong competition from other fuels, especially in the power sector. In the mid-2020s, in gas-importing countries in Asia, new gas plants would be a cheaper option than new coal plants for baseload generation only if coal prices were $150/tonne (double the anticipated 2025 price). The space for gas-fired generation is also squeezed by the rising deployment and falling costs of renewables.[4]

The Unit notes that long–term predictions of future prices of oil and gas are fraught. Even within short-term pricing, volatility is high implying that prices for West Texas crude within a 95% confidence level range between $35/bbl to $93/bbl for a December 2017 contract. Brent Crude and WTI are the most liquid futures contracts and have contracts out to eight years (2025) currently indicating around $58/bbl. Below is an example of the long term predictions on natural gas prices in the US[5], which suggest a modest rise over time, refuting the arguments of the multinational gas corporations the that the Australian Government needs to give away the natural gas reserves for free to them in order to encourage investment now rather than waiting until the development of the resources in the future would provide a greater return to the Australian public.

[1] International Energy Agency, 'World Energy Outlook 2016. Executive Summary', Paris, France, November 2016, p. 1.
[2] International Energy Agency, 'World Energy Outlook 2016. Executive Summary', Paris, France, November 2016, p. 5.
[3] International Energy Agency, 'World Energy Outlook 2016. Executive Summary', Paris, France, November 2016, p. 7.
[4] International Energy Agency, 'World Energy Outlook 2016. Executive Summary', Paris, France, November 2016, p. 7.
[5] http://www.eia.gov/outlooks/aeo/data/browser/#/?id=3-AEO2017&region=1-0&cases=ref2017&start=2015&end=2050&f=A&linechart=~~~~ref2017-d120816a.19-3-AEO2017.1-0~ref2017-d120816a.12-3-AEO2017.1-0~ref2017-d120816a.118-3-AEO2017.1-0~ref2017-d120816a.79-3-AEO2017.1-0~ref2017-d120816a.86-3-AEO2017.1-0&map=ref2017-d120816a.4-3-AEO2017.1-0&ctype=linechart&sourcekey=0

Gas has traditionally been priced off oil however since the shale gas boom in the US, gas prices have decoupled and we are also seeing this with new Asian issued contracts. The price of gas in Asia is beginning to work on local price dynamics, one of which is the massive supply of cheap gas from Australia under long-term contracts committed years ago. Australia is having to meet the contracts by sourcing gas from domestic supply increasing gas prices for locals. The Committee should give strong consideration to redesigning the tax regime so as not to encourage exploitation of the non-renewable gas reserves at a time when the market price obtained will be low and hence the return to the Australian public will be low.



OPEC pricing predictions[6] also suggests continued modest increase in oil and gas prices even as economies transition to less-carbon intensive gas and renewables. While the trend towards low carbon investments ramps up, oil and especially gas will retain a decent share of the energy market from "transition fuel' status away from coal and to meet carbon emission commitments. Increasingly geopolitical risk could influence prices upwards.

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[6]http://www.opec.org/opec_web/static_files_project/media/downloads/publications/Executive%20Summary%20WOO2016.pdf