

Senate Standing Committee on Economics - Inquiry into the Treasury Laws Amendment (Tax Accountability and Fairness) Bill 2023

Australian Energy Producers, Response to Questions on Notice

Question from Senator McKim taken on notice:

Senator McKim: When and how were you informed that the deductions cap option was Treasury's preferred option?

RESPONSE

Australian Energy Producers and its members met with Treasury on multiple occasions to discuss the PRRT reforms, including options for the introduction of a deductions cap, in the lead up to the Treasurer's announcement of the reforms on 7 May¹. The scope of these discussions is outlined in documents published by Treasury in accordance with the Senate Order for the production of documents.²

Questions on notice received from Senator Bragg

1. *What is the investment climate like for gas projects in Australia at the moment?*

RESPONSE

Investment in new gas supply is crucial for Australia to avoid forecast domestic gas shortfalls and to ensure Australia continues to have affordable and reliable electricity (backing up renewables as coal is phased out), and energy for manufacturing and other industrial processes that rely on gas (gas accounted for 42 per cent of manufacturing final energy use in 2021–22).³

The Australian Energy Market Operator's most recent Gas Statement of Opportunities reports for the east and west coast gas markets have highlighted the need for new investment in gas supply to avoid structural domestic gas shortfalls in the coming years.

AEMO's east coast report said, "new investment is urgently needed if gas supply from 2028 is to keep up with demand from homes and businesses, and for gas-powered electricity generation."⁴

In both the east and west coast gas markets, maintaining LNG production and meeting domestic demand requires investment in new development which is not occurring on the scale needed.

However, state and federal Government policy decisions and interventions in the gas market and prolonged regulatory uncertainty have delayed the new gas supply projects and investment urgently

¹ <https://ministers.treasury.gov.au/ministers/jim-chalmers-2022/media-releases/changes-petroleum-resource-rent-tax>

² [Tabled documents | Document 2849 \(aph.gov.au\)](https://aph.gov.au/DocumentDownload.aspx?Document=2849)

³ <https://www.energy.gov.au/publications/australian-energy-update-2023>

⁴ <https://aemo.com.au/newsroom/media-release/gas-market-outlook-signals-need-for-new-investment>

needed to keep the lights on and put downward pressure on prices for Australian homes and businesses.

Australia needs an effective, streamlined regulatory environment that will help to expedite project delivery, improve environmental outcomes, and attract the investment in new gas supply that will be essential to Australia's energy transition and to meet net zero by 2050.

2. How does Australia's investment climate compare to the US or Canada?

RESPONSE

Australia has a competitive advantage with abundant gas reserves and growing LNG demand in our region. Yet at present, we are failing to seize this opportunity, and the increased demand for gas that Australia and our region will need in the coming years and decades is at risk of not being met.

Australia is facing increasing competition in global LNG markets, particularly from Qatar and the United States which have overtaken Australia in LNG export volumes, and are projected to continue to grow their market share.

Qatar, for example, has announced plans to almost double LNG production capacity by 2030. Other countries are also investing in LNG opportunities to meet this anticipated growth market. Meanwhile, exploration activity in Australia is at an all-time low, and Australia risks missing out on the significant LNG growth opportunity on our doorstep.

The Institute of Energy Economics, Japan (IEEJ) has forecast that Asia's LNG consumption will more than double from 2021 to 2050, from 273 million tonnes to 551 million tonnes, and Asia's LNG import dependency will rise from 30 per cent today to 50 per cent by 2050⁵. Meanwhile, the IEA projects that the South East Asia region, which has historically been an exporter of gas, will become a net importer of gas by 2025 as a result of rising demand.⁶

3. Do you agree that reform is required to ensure Australia is able to increase its gas supply?

- a. By extension, if the Government were to continue on their current trajectory of undermining investment instead of encouraging it, would you expect that future tax collection from projects would decrease as no new projects come online?*

RESPONSE

Australia needs policy settings that will bring back investor confidence to secure our domestic energy needs and restore our international reputation as a reliable energy partner. Stable tax and fiscal settings are critical for businesses in Australia to make the large, long-term investments needed for new gas supply projects.

While bipartisan support for passage of the PRRT changes contained in the Bill would be a significant step towards providing certainty and stability to industry, it should be recognised that further improvements to fiscal and regulatory settings are needed to restore investor confidence.

It is reasonable to assume that Australia's future PRRT revenue will be diminished if new LNG projects are delayed or do not proceed as a result of an unfavourable and uncertain operating environment.

⁵ <https://www.eria.org/uploads/Mitigating-Extreme-Volatility-of-LNG-Prices-in-ASEAN.pdf>

⁶ IEA Southeast Asia Energy Outlook 2022 <https://iea.blob.core.windows.net/assets/e5d9b7ff-559b-4dc3-8faa-42381f80ce2e/SoutheastAsiaEnergyOutlook2022.pdf>

4. *The Coalition has put forward a number of simple reforms that would assist in bringing more gas supply online at a time when we are staring down the barrel of gas shortages only a couple years away - this was reported in the media. In your view, have any of the reforms called for in the Coalition's letter been implemented and actioned by the government?*
- a. *By your assessment, would "Urgently reforming the Offshore Environment Regulations under the Offshore Petroleum and Greenhouse Gas Storage Act to provide clarity on consultation requirements and restart offshore gas investment" help increase gas supply?*
 - i. *Were you concerned to see the Government vote against considering its own bill, which had bipartisan support in the last sitting week, despite what now appear to be empty promises of progressing these reforms with urgency?*
 - b. *Would "Preventing the abuse of 'stop the clock' provisions, which are being used by regulators to effectively circumvent statutory timeframes for approvals under the EPBC Act and OPGGS Act" help get more gas supply into the market quicker?*
 - i. *Is it your understanding that the "Nature Positive Plan" and an EPA decision making body would achieve this streamlining and faster approvals, or are you not only concerned with the secretive and exclusionary consultation process, but also the content of the proposals and how it may grind approvals to a standstill?*
 - c. *Would "Carving out all existing project applications, including those submitted but not yet approved, from any future EPA process so as not to move the goalposts on industry yet again" help boost investor confidence?*
 - d. *Would "Removing bans from IR&D Act section 3 instruments supporting the extraction of natural gas", which was used by the previous Government to fund programs like the Strategic Basins Plan, bolster investor confidence that the Government was actually supportive rather than against gas?*

RESPONSE

Addressing the delays and uncertainty in environmental approvals is critical to bringing on new gas supply that is urgently needed to address forecast gas shortfalls across Australia.

Australian Energy Producers has been calling for urgent reforms to Australia's offshore environmental regulations to address uncertainty that is causing significant delays and additional costs to new gas supply projects. The Australian Government is moving to fix the uncertainty and has legislation currently before the Parliament that is an important step towards the necessary reforms.

The Coalition has put forward sensible policy proposals aimed at providing clearer and more timely decisions for offshore and onshore gas projects and we continue to urge the Government to work constructively with the Coalition on environmental reforms to streamline approvals and on the PRRT changes to secure bipartisan support and provide certainty to industry.

5. *Of the \$2.4 billion of revenue the Government booked in last year's budget as revenue in the forward estimates from PRRT changes, are you able to estimate the proportion of that revenue that will be an additional tax impost on industry (i.e., new revenue) versus that revenue that will just be tax that is paid sooner than it otherwise would have (i.e., bring forwards)?*

RESPONSE

Australian Energy Producers understands that Treasury's \$2.4 billion figure comprises a mix of additional revenue and revenue that is forecast to be paid sooner, within the forward estimates period, but does not have access to the breakdown of Treasury's \$2.4 billion forecast. The timing and amount of PRRT any project will pay depends on several variable factors. Treasury is best placed to provide revenue forecasts.

6. *Is it expected by your members that their PRRT liabilities will increase, decrease, or stay the same over the medium term as a result of this legislation?*

RESPONSE

Industry expects there will be additional revenue collected over the forward estimates and beyond under the proposed changes. The timing and amount of PRRT any project will pay depends on several variable factors. Treasury is best placed to provide revenue forecasts.

7. *Were the Government to confirm this estimate of the proportion of new revenue to revenue brought forward, as a whole for industry, would you have concerns with this information being public?*

RESPONSE

Industry would welcome engagement with Treasury to consider what additional revenue forecast information could be published without disclosing commercially sensitive information or that could be misrepresented.