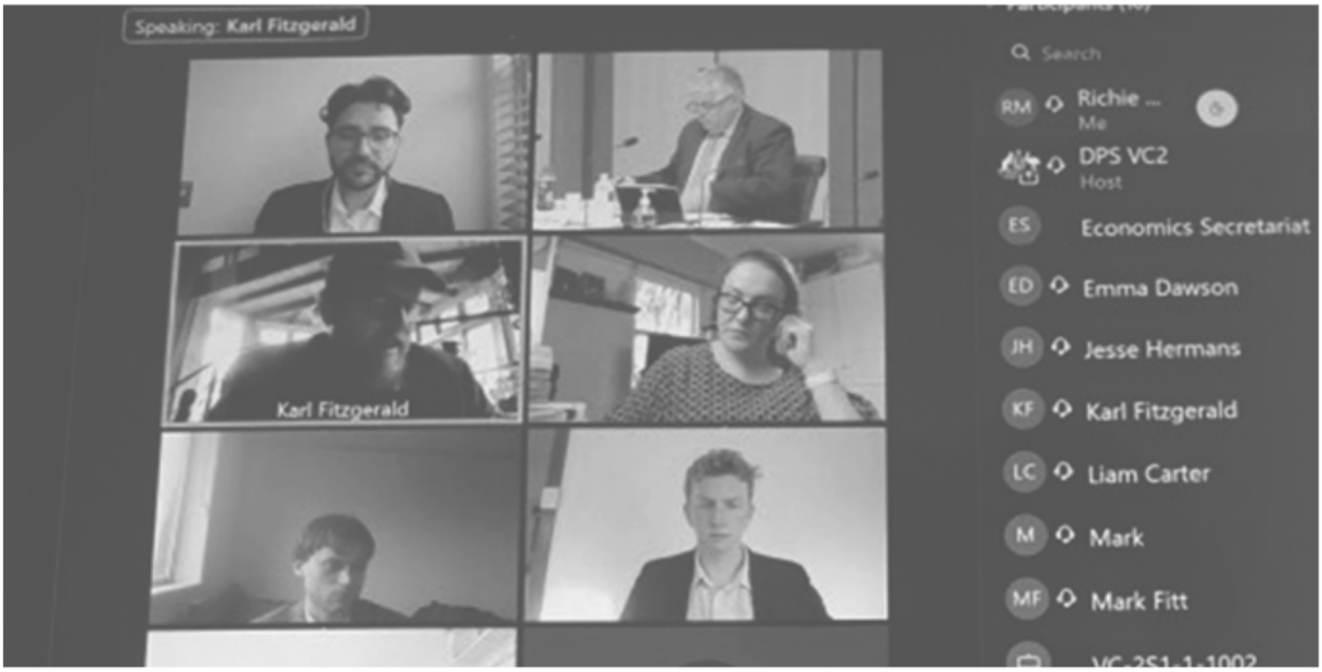
Senate Economics References Committee - Oil & Gas Reserves Inquiry



CHAIR, Senator Rex Patrick: Again, could I ask you to keep it as brief as possible?

Mr Fitzgerald: Sure. Australia is akin to a petrostate without the petrodollars. We're basically giving away our resources as if they're an exclusive money tree for multinationals and their shareholders, and the problem we face is that our PRRT regime is banking on future superprofits that may never eventuate. The marginal investments encouraged by such a scheme may no longer be relevant in an impending future of stranded assets.

Like Dr Murray, we support a return to a system of royalties, which allows for less accounting trickery. A multitude of climate related issues have come up since this inquiry was announced. With the carbon tariffs, stranded assets and the retirement of oil rigs, we'd need to make sure that our resource rent system accounts for some of the new tricks that are coming through. One of those revolves around depreciation rates. We are big critics of depreciated optimised replacement costs—known as DORC. The move by the Chinese owners of the

Dampier-to-Bunbury gas pipeline, where they brought forward the end-of-life time frame by nearly 30 years, is set to increase their depreciation write-offs, delivering a windfall gain for investors and perhaps a bill shock for customers. On one front, that will support the move towards renewables, but, in the short term it's certainly going to affect Australia's comparative advantage when it comes to energy. We'd like to see more discussion and use of the more common depreciated actual cost. That's what's used throughout most business. You can imagine that, in a dying industry, maintenance costs and OH&S will be cut, and these depreciation time frames will be dramatically shortened to pump profits. The taxpayer may well lose out again with these sorts of strategies. We also would love to see the regulator updating from a private profitability test to a natural monopoly test when analysing pricing returns. There's the use of environmental bonds. They're so small compared to the size of some of these projects. It would be very interesting to see what would happen if there were a sliding scale in terms of an increase in those environmental bonds according to our carbon budget. One other thing we think has gone on for too long is the use of shelf companies, known as 'minnows', where ageing mines are sold off to such an arrangement to avoid tax and regulatory compliance. Those are some of the key issues that we're talking about. We love looking the what Timor-Leste has achieved since 2005. They have a five to 10 per cent royalty charge at the mine gate, backed up by a PRRT of 40 to 50 per cent and a company tax of 30 per cent—similar rates to what is being paid in Norway. It's 78-odd per cent there.

Alaska has a 35 per cent tax on production value alongside the corporate tax of between 21 to 30 per cent. The new federal royalty rate could be offset against the PRRT but should not be deductible against company taxes.

And we must remember that, with pressure mounting on a COVID-ravaged world, that a fairer share on the nation's natural resources is a much higher priority than what some see as the inevitable increasing of the regressive GST. That's the challenge: to help the Australian people recognise that we actually own these resources. Thanks very much, Senator Patrick, for triggering this inquiry.

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Senator PATRICK: I just want to move to the next witness—I'm going to get the hurry-up very shortly—so I'll just go back to Mr Fitzgerald. Have you ever tried to model the potential returns on Australian resources using perhaps an overseas taxation royalty regime?

Mr Fitzgerald: We haven't done that so far, but we have done an analysis of whether the entire Australian tax base could be replaced with taxes on natural monopolies, including land and natural resources. They tell us in the textbooks that such economic rents are only worth two to three per cent of GDP, but we found they were the equivalent to 23.6 per cent back in 2011. So there's an immensity of wealth at our fingertips; it's just a pity that our democracy is subservient to lobbyists.

Senator PATRICK: Change PRRT or a royalty—or a contract, as I might have suggested before?

Mr Hermans: I'd have to say that a contract does sound like a really good idea. What we've looked at now has been more like a minimum royalty as a wall within the PRRT. So, rather than getting rid of the PRRT, you could just leave it in place, impose a minimum 10 per cent royalty and then, if anyone does still get any superprofits somehow—even after the deductions for the royalty and their existing tax credits—then they would pay that. But at least we would get a fuller amount of revenue.

The reason we would lean more to that is that I think the priority has shifted on the policy for extracting the most amount of revenue you can on every unit that comes out of the ground. We don't actually know whether in the future these resources will just end up being left in the ground as stranded assets or if these companies will even realise the profits to pay th PRRT. So it's better to get the return today, based on the value that's coming out of the ground.

Senator PATRICK: How much do we know about the inerts—the heliums and so forth? Are they actually subject to PRRT?

Mr Hermans: I'm not aware of them being subject to the PRRT. I don't think they would come under the scope of petroleum resources—hydrocarbons—but I wouldn't be able to confirm that.

Senator PATRICK: Should they be? It's an asset; it's a resource that belongs to the Australian people.

Mr Hermans: Yes, they definitely should be subject to some sort of resource rent regime. But given how broad the PRRT has been—there have been changes made, and the problem is really in the grandfathering now, but given just how poorly Australia has conducted resource taxation policy, I question whether our institutions are actually capable of managing a profits based tax, so perhaps a royalty regime is more appropriate for helium as well.

Senator PATRICK: Okay. I'm going to have to leave it there. I do have a lot of other questions, but the chair will beat me up if I use too much more time! So, thank you.

Slightly edited. Further reading on the inquiry: shorturl.at/vACNY