SENATE ECONOMIC REFERENCES COMMITTEE: INQUIRY INTO AUSTRALIA'S OIL AND GAS RESERVES

Per Capita Australia

1 November 2019

Table of Contents

ABOUT PER CAPITA 3

TERMS OF REFERENCE 3

INTRODUCTION 4

TAXING EXTRACTION OF AUSTRALIA'S NATURAL RESOURCES FOR THE COMMON GOOD 5

AUSTRALIA'S APPROACH TO THE TAXATION OF NATURAL RESOURCE EXTRACTION 5
REVENUE FORGONE DUE TO RELATIVELY LOW TAXATION OF OIL AND GAS RESERVES 6
INVESTING IN OUR FUTURE PRODUCTIVITY 7
AN EDUCATION FUTURE FUND 7
OVERCOMING OPPOSITION FROM VESTED INTERESTS 8

CONCLUSION 10

About Per Capita

Per Capita is an independent public policy think tank, dedicated to fighting inequality in Australia. We work to build a new vision for Australia based on fairness, shared prosperity, community and social justice. Our research is rigorous, evidence-based and long-term in its outlook.

We consider the national challenges of the next decade rather than the next election cycle. We ask original questions and offer fresh solutions, drawing on new thinking in social science, economics and public policy.

This submission was prepared by Emma Dawson and Shirley Jackson.

Terms of Reference

That the following matter be referred to the Economics References Committee for inquiry and report on the first sitting day in March 2020:

a. arrangements used by other countries to maximise the benefit to the public of national oil and gas reserves;

b. arrangement that could be considered to maximise benefit to the public of Australia's national oil and gas resources, cognisant of:

  i. sovereign risk,

  ii. existing property rights, and

  iii. federal and state jurisdictions; and

c. any related matters.

Introduction

It is almost a decade since the release of Australia's Future Tax System Review.

Known now as the Henry Review after its lead investigator, then head of Treasury Ken Henry, this major analysis was commissioned by the then Labor Government to "examine and make recommendations to create a tax structure that will position Australia to deal with the demographic, social, economic and environmental challenges of the 21st century and enhance Australia's economic and social outcomes"[1].

The Terms of Reference were broad and bold, notwithstanding the exclusion of consideration of the Goods and Services Tax (GST).

The Review's primary recommendation was that

> "[R]evenue raising should be concentrated on four robust and efficient broad-based taxes:
> - personal income, assessed on a more comprehensive base;
> - business income, designed to support economic growth;
> - economic rents from natural resources and land; and
> - private consumption.[2]"

On any objective assessment of Australia's current taxation system, the third of these four categories remains the one in which successive governments have proved unwilling or incapable of implementing adequate taxation measures.

In an address to the Australian Institute of Company Directors' Governance Summit in Melbourne last year[3], Henry lamented the failure of successive governments to act on the report's recommendations, warning that, without comprehensive reform leading to a sustainable tax base, the work of government would grind to a halt.

It's well past time for our political leaders to grasp the mettle of structural reform to deliver a sustainable tax base to support the wellbeing and future prosperity of the Australian people.

Per Capita believes that a critical part of such reform is the implementation of efficient and effective taxation on our natural resources, including our oil and gas reserves.

Taxing extraction of Australia's natural resources for the common good

Australia's approach to the taxation of natural resource extraction

The unwillingness of our political leaders to grapple with serious tax reform can be traced to the Rudd Government's disastrous attempt to implement a Minerals Resource Rent Tax in 2010, which was itself a diluted version of the uniform national resource rent tax proposed by Henry the previous year.

Facing trenchant opposition from the mining industry, who ran a well-resourced scare campaign backed by the then-opposition Coalition led by Tony Abbott, Rudd's signature tax policy fell at the first hurdle, and was a major contributing factor to his ousting as Prime Minister in June that year. It was then resurrected by his replacement as Prime Minister, Julia Gillard, but with concessions to the mining industry so extreme as to render it virtually useless as a source of revenue.

That the Australian people receive so little recompense for the extraction and export of our natural resources is indefensible. Australia is one of the most resource-rich nations on earth: besides being the world's leading exporter of coal, we hold a top five position as producer of another 19 commodities. In the 2016-2017 financial year, 7.4% of our gross domestic product came from mining[4].

A recent forecast from the Department of Industry, Innovation and Science found that "[t]he value of Australia's [Liquid Natural Gas] exports is forecast to increase from $22 billion in 2016–17 to $35 billion in 2018–19" – and by 2020, will overtake Qatar as the largest exporter of LNG in the world[5].

Yet we are expected to earn only around $600 million in taxes from LNG exporters this year, compared to Qatar's take of more than $26billion.

Exporters of our natural resources are essentially engaged in asset sales. These assets – which can only be sold once - belong to all Australians, and the failure of our taxation system to secure a reasonable share of their value for the common good is an abject failure of policy makers.

Any government serious about shoring up Australia's revenue base should be looking again at implementing a uniform national resource rent tax as a matter of urgency.

Revenue forgone due to relatively low taxation of oil and gas reserves

A submission to the Senate Economics Reference Committee Inquiry into Corporate Tax Avoidance in 2018 demonstrated the scale of foregone revenue, rightly owed to the Australian people, resulting from the extraordinarily lax fiscal regime that governs resource rents in Australia.

Juan Carlos Boué, a researcher at the Oxford Institute for Energy Studies, calculated and compared the Effective Tax Ratios (ETRs) for petroleum exploration and production activities in different jurisdictions producing oil and natural gas, and found that, since 2008, Australia has imposed an ETR of 21 per cent on gross industry income from petroleum exploration and production.

Boué found that:

> [i]f the quantum of gross income generated by upstream oil and gas activities in Australia during these years had attracted the ETRs which oil and gas activities attracted in Denmark and Norway during this same period (49 and 54 per cent, respectively), then the Australian federal government would have received an ***additional 71 or 84 billion US dollars,*** respectively, in fiscal income[6] (emphasis ours).

If we are to continue allowing multinational mining companies to extract and export our non-renewable energy resources, we should be demanding a much higher return, which we can invest in our future prosperity.

Further, when discussing the approaches available to government, it is important to remember that spending as well as taxation apply to the resource industry. Recently, the International Monetary Fund (IMF) released a working paper which tracked and analysed comparative data on the global spend on subsidies in the fossil fuel industry.[7]

Australia spends approximately US$29bn (A$42bn) in post-tax subsidies for the resource industry. This represents approximately 2.3% of GDP, costing more than the Government’s commitments to Defence spending. If these subsidies were removed or reduced, and coupled with increased taxation, the government’s revenue stream could be greatly improved.

Investing in our future productivity

If Boue's calculations are correct, then the revenue forgone to Australia's common wealth from our failure to tax the extraction of our oil and gas reserves is more than double the cost over a decade of fully funding the Gonski education plan.

It is widely acknowledged that we are living through what Klaus Schwab, Founder and Executive Chairman of the World Economic Forum, has dubbed the "fourth industrial revolution[8]". In his 2017 book of the same name, Klaus outlines the challenges of the current era of technological disruption and change to the way we live and work in a digital society.

But the central thesis of his book is that we can harness the opportunities of this revolution by "… by putting people first, empowering them and constantly reminding ourselves that all of these new technologies are first and foremost tools made by people for people."

The best way to do that is by investing in education and skills training for the working and middle class. A skilled and engaged workforce is now a non-negotiable part of the economy.

In a rapidly changing economy, a workforce that can adapt to change, learn new roles, take up new technologies and engage with new ways of working will be critical to not only workplace productivity, but also overall societal wellbeing.

The increased government revenue gained from a uniform national resource rent tax, implemented at an internationally competitive rate significantly higher than our current 21 per cent ETR, could underpin the long-term investment in education and skills training required to ensure that our nation is able to adapt and thrive in the changing economic and social environment wrought by technological advancement and automation of industry.

This requires more than a one-off funding boost. Rather, a long-term investment vehicle to provide a secure source of revenue for education and skills development needs to be a central part of Australia's fiscal environment.

An Education Future Fund

The proceeds from an effective uniform national resource rent tax could be spent initially on directly funding the Gonski school education plan, with the remaining revenue wholly invested in a new sovereign wealth fund dedicated to funding school education, and additional resources allocated to vocational education and training for people throughout the lifecourse.

The "Education Future Fund" could be administered alongside Australia's other sovereign wealth funds, by the Future Fund. Managed prudently, its proceeds could, within a decade, sustainably fund Australia's school education sector in perpetuity, even beyond the natural end of demand for non-renewable energy resources.

Overcoming opposition from vested interests

Opposition from the Australian mining sector to a uniform national resource rent tax set at a rate comparable with other jurisdictions would, of course, be vociferous.

However, it is doubtful that a campaign against a well-designed resource rent tax would find as receptive an audience as it did in 2010. Public opinion on issues of tax and transfer has shifted considerably in the intervening years.

The annual Per Capita Tax Survey, which has been conducted since 2010, has seen a marked increase of more than 10 per cent in the number of Australians who believe that corporate tax avoidance is unfairly skewing our tax system since the survey commenced. The most recent survey found that almost nine in 10 Australians now believe that corporate tax avoidance is affecting the fairness of Australia's taxation system.[9]

The survey reflects a growing concern amongst the electorate over growing inequality in Australia. A tax and transfer policy that sought to recoup our fair share of the proceeds from resource asset sales for investment in the education of our kids and our future workforce would likely find favour with citizens concerned about low wage growth, high house prices and increased costs of living.

Secondly, the mining boom is over, and an industry campaign against a "great big new tax" would likely fall on fallow ground. Its success in 2010 was due to the industry's ability to portray itself as a major employer and a strong investor in the Australian economy.

Since 2012, employment in mining has fallen by almost 20 per cent, and mining investment, which peaked that year at around nine per cent of GDP, has fallen rapidly to below four per cent of GDP today.

It's much harder for mining billionaires in 2018 to make the case that a tax on their business profits is a tax on the incomes of working Australians. The failure of the Business Council's campaign for company tax cuts for businesses with more than $50million in revenue to cut through to the Australian people shows that times have changed.

Thirdly, a well-designed uniform national resource rent tax, explicitly aimed at funding education, rather than at shoring up the general revenue base, would appeal to a demonstrated desire among the public for increased investment in our education system.

The annual Per Capita Tax Survey finds that four in five Australians want to see more government spending on education[10]. Along with health, it's an area the vast majority of Australians, of all political persuasions, believe deserves greater investment.

Finally, if the proceeds of the tax were invested securely in a sovereign wealth fund, the populace could be convinced that their money, coming from the sale of their assets, was being prudently and independently invested for the betterment of their and their children's futures.

In short, the politics of selling such a policy should be achievable for any politician serious about reducing inequality and investing in the future of the nation.

Conclusion

While it's far from the wholesale structural tax reform envisaged by the Henry Review, and needed to ensure our national prosperity in the face of climate change, technological disruption and the demographic challenges of longevity and globalization, a properly structured uniform national resource rent tax is long overdue.

By using it to create a long-term investment vehicle, by way of an independent sovereign wealth fund, to secure the future funding of our education system, policy makers could create a widely supported, sustainable means of empowering Australian citizens to adapt and thrive through the 21st century.

If we are to continue to allow multinational corporations to extract and export our non-renewable energy resources, at least until the demand for them is supplanted by renewable energy technologies, then surely now is the time to invest the proceeds securely in the future of the Australian people.

---

[1]Department of Treasury and Finance, *Australia's Future Tax System: Consultation Paper Summary*, Appendix A. Canberra, May 2008.
http://taxreview.treasury.gov.au/content/ConsultationPaper.aspx?doc=html/publications/Papers/Consultation_Paper_Summary/Appendix_A.htm

[2] *Australia's Future Taxation System: Report to the Treasurer – Part One, Overview*, Commonwealth of Australia, 2010. P. 26
https://treasury.gov.au/sites/default/files/2019-10/afts_final_report_part_1_consolidated.pdf

[3] Henry, Ken, Address to the AICD Governance Summit, Melbourne, March 2018. As reported in *The Australian*, 2 March 2018.
https://www.theaustralian.com.au/opinion/taxes-to-abolish-and-replace-all-in-the-national-interest/news-story/8c83bc20229bb07e87631db1d44a6849

[4] http://www.ga.gov.au/scientific-topics/minerals/mineral-resources/aimr

[5] https://industry.gov.au/Office-of-the-Chief-Economist/Publications/ResourcesandEnergyQuarterlySeptember2017/index.html

[6] Boué, Juan Carlos, *Corporate Tax Avoidance Submission 158*, March 2018.
https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/Corporatetax45th/Submissions

[7] Coady, et. al., *Global Fossil Fuel Subsidies Remain Large: An Update Based on Country-Level Estimates*, IMF Working Paper 19/89, May 2019.

[8] Schwab, Klaus, *The Fourth Industrial Revolution*, New York: Crown Business, 2017.

[9] https://percapita.org.au/wp-content/uploads/2018/01/2017-Tax-Survey_Final.pdf

[10] Per Capita, ibid.