Windfall profits: time to fix loopholes and subsidies to serve Australians better

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August 2022

Key findings

Overview

- Introducing an equitable multinational corporate taxation and progressive royalty regime on Australia's public fossil fuel resources could contribute $322bn of tax and royalty income over the coming decade. If applied from 1 July 2022, the $55bn boost in 2022/23 would be 5-10 times that contributed by fossil fuel companies in 2021/22.
- $55bn is 54 times the annual Federal spend on environmental protection.
- This would deliver a net benefit to Australians, generating revenue for vital social, health and education services, and lowering the domestic cost of gas and hence electricity produced from Australia's public resources. It would also potentially underpin the fiscal capacity to expedite emergency payments to people most harshly hit by rampant fossil fuel price inflation, and to offset skyrocketing domestic energy costs by funding energy efficiency and distributed energy solutions (induction cookers, ground heat pumps, rooftop solar, EVs) to permanently reduce reliance on fossil fuels.

The energy crisis and fossil fuel windfall superprofits

- Australia is being impacted by concurrent fiscal, energy and climate crises. Unprecedented hyperinflation of fossil fuel prices globally is being driven by Putin's invasion of the Ukraine.
- As one of the three largest global fossil fuel exporters, Australia's fossil fuel industry is set to book record high profits in 2022. This should be clearly termed what it is, war profiteering.

Coal royalties

- Climate Energy Finance (CEF) applauds the political courage of Queensland Treasurer Cameron Dick in introducing an exceptionally progressive six tiers coal export royalty regime ranging from 7-40% of revenues to ensure Queenslanders suffering from hyperinflation of domestic energy costs see some sharing of the fossil fuel industry's windfall gains in the form of increased government investment in areas such as hospitals and the new critical minerals industry.
- CEF notes that despite coal lobbyist claims, Queensland's coal export average royalty rates are still well below the average 34% royalty / excise regime applying in the Indian coal industry.
- The flat 7-8% coal export royalty rate currently in place in NSW is overdue for immediate review.
- CEF calls on NSW Treasurer Matt Kean to share the NSW coal export windfalls with the people of NSW by instituting a royalty regime comparable to Queensland's, rather than leaving all these superprofits to the predominantly foreign tax-haven based multinationals exploiting public resources for private gain, often whilst also paying zero corporate tax and benefiting from multi-billion-dollar fossil fuel subsidies.

Taxation of fossil fuel multinationals

- The Australian Tax Office (ATO) Transparency initiative publicly details that the majority of the top tax avoiding fossil fuel multinationals have paid precisely zero corporate tax here in the seven years (2014-2020), on a collective $228bn of revenues.
- Following the successful prosecution in 2017 of Chevron's flagrant tax avoidance over the last decade, the ATO has made progress on reducing the massive competitive disadvantage inflicted on Australian domestic firms by rampant multinational tax avoidance.

- Thin capitalisation rules are one obvious ongoing loophole.
- The multiple reviews of the entirely compromised Petroleum Rent Resources Tax (PRRT) have highlighted the potential $230bn budget boost by 2050 – sufficient to fund a quarter of Josh Frydenberg's trillion-dollar legacy.
- CEF calls on Federal Treasurer Jim Chalmers to put the interests of 25 million Australians ahead of the foreign tax-avoiding gas cartel and ensure our existing Federal fossil gas royalty program delivers on the funding industry promised a decade back.

An east coast fossil gas levy

- An east Australia fossil gas levy applied only to gas exports would immediately divert supply to domestic users, and create a domestic price differential equal to the level of the levy.

Fossil fuel subsidies

- It is time Australia ceased all fossil fuel subsidies ($11bn in 2021/22). CEF calls for an annual cap on the diesel fuel subsidy of $50m per firm. This would give an immediate $4-5bn p.a. revenue lift whilst improving Australia's energy security and incentivising electrification and decarbonisation.

Figure 1.1: Australian Carbon Exports Windfall-profits Tax – a $322bn Tax Opportunity

A$bn		**2022/23**	**Over a decade**
Multinational Tax Reform		9.3	102.8
Multinational tax penalties for 2010-2022			5.0
Diesel Fuel Rebate		3.9	46.3
Assumed Mining Majors share	50%		
Queensland Coal Royalty		13.1	44.7
2022/23 royalty at spot prices	20.1		
2022/23 discount to spot prices	35%		
Queensland LNG royalty		6.1	30.5
NSW Coal Royalty		17.5	43.0
2022/23 royalty at spot prices	26.9		
2022/23 discount to spot prices	35%		
PRRT		4.5	45.0
Other fossil fuel subsidies (capital & income)		0.5	5.0
Total		54.9	322.3

Source: Climate Energy Finance Estimates

Contents

Carbon Exports Windfall-profits Tax (CEWT)

Section 1: Executive Summary

"Never underestimate the importance of a progressive tax system. It's the bedrock of a progressive society."

Nobel laureate economist Joseph Stiglitz, July 2022 [1]

Australian state and Federal royalties on all fossil fuel exports were a record $13.8bn in 2021/22, up from just $4.4bn in 2020/21. This was driven by record fossil fuel export prices and hence revenues of A$166.9bn, a royalty rate of just 8.2% ($69.7bn in 2020/21, a rate of 6.2%) – refer Figure 1.2. By comparison, India gets a royalty rate of 34% of revenues from its coal industry (Section 8).

Given so much media coverage is given to the fact that Australia is so dependent on this industry as a top 3 global exporter of fossil fuels, it is telling that 2021/22 was the first time fossil fuel royalties exceeded the annual diesel fuel rebate of $7-9bn (Section 7.1), the majority of which goes to the mining industry. For all the fossil fuel lobbyists narrative that our economy is dependent on this key industry, this report provides independent context of how little contribution is made to the national government receipts, net of outgoing fossil fuel subsidies. This is particularly pertinent in the context that the majority of fossil fuel multinationals operating in Australia have paid precisely zero corporate tax in the last seven years that Australian Tax Office (ATO) data is available (refer Section 6). Thin capitalisation rules need to be dramatically improved (Section 6.1).

Figure 1.2: Australian Carbon Exports at Record Highs

A$bn	2020/21	2021/22	2022/23
LNG	30.5	70.2	83.7
Coking Coal	23.2	58.2	60.1
Thermal Coal	16.0	38.6	44.5
Total Fossil Fuel Exports	**69.7**	**166.9**	**188.3**
Federal PRRT	0.9	1.7	2.4
Queensland LNG	0.3	1.2	1.6
Queensland Coal	1.7	7.3	5.5
NSW Coal	1.4	3.6	4.1
Total Fossil Fuel Royalties in the Budgets	**4.4**	**13.8**	**13.6**
LNG royalty *	3.9%	4.0%	4.8%
Coal Royalty	8.1%	11.3%	9.1%
Total royalty	6.2%	8.2%	7.2%

** Overstated as the oil royalty is included by in the state and PRRT figures*
Sources: Federal, NSW & Queensland Budget papers, Office of the Chief Economist, June 2022, CEF calculations

[1] The Saturday Paper, "Joseph Stiglitz on how to make Australia richer", 23 July 2022

We provide this analysis in the context of the concurrent fiscal, energy and climate crises inherited by the new Anthony Albanese-led Federal Government. With much of the world facing the immediate threat of a hyperinflation fossil gas led recession, it is clear that total regulatory capture by the multinational gas cartel has exposed all of eastern Australia to this new global crisis.
July 2022 saw Glencore settle one of the highest ever thermal coal delivery contracts into Japan for 2022/23 at US$375/t.[2] Thermal coal spot prices are currently a near all time record high of US$410/t (A$586/t), up eightfold on prevailing record low prices just two years ago. Coking coal prices have halved from record highs at the start of 2022 to US$300/t (A$429/t) in July 2022, but this is still double the long term average (Section 2).

CEF applauds the political courage shown by Queensland Treasurer Cameron Dick to expand the state's already progressive coal royalty regime in recognition of uncharted coal price hyperinflation. Given the state ultimately owns the fossil reserves, it is entirely appropriate that these unprecedented war-profiteering gains resulting from Putin's invasion of Ukraine are shared, providing the state the opportunity to offset some of the economic pain inflicted on domestic industry and consumers across Queensland from surging gas and electricity prices, which in turn is feeding into general inflation and hence higher interest rates. The progressive royalty system has been expanded from a range of 7-15% across three tiers to now 7-40% across six tiers.

This built on the far less ambitious move by Cameron Dick to a more progressive liquid natural gas (LNG) royalty following the Jay Wetherill review of 2020/21 which should see royalties treble over the forecast period relative to the record low of just A$0.3bn LNG royalties received by Queensland in 2020/21 (Section 4). With Asian LNG prices up tenfold in the last two years, this still leaves the tax haven based multinationals gaining the vast majority share of these war-profits.

A new export only east Australia gas levy would immediately provide the price signal to prioritise domestic use. This would lower Queensland LNG royalties,[3] but the cost savings to East Australian domestic gas users would be dramatic, both directly and in terms of a likely halving of NEM electricity prices vs current hyperinflated rates.

At a time of fossil fuel commodity driven energy hyperinflation, CEF advocates for a Carbon Export Windfall-profits Tax (CEWT) across the Federal and NSW governments. We call on Federal Treasurer Jim Chalmers and NSW Treasurer Matt Kean to show the same political courage as Queensland's Cameron Dick.

An immediate and rapid review of failed and totally gamed Petroleum Rent Resources Tax (PRRT) is needed (Section 5). It can be rapid in light of the multiple reviews already completed by Treasury. Modelling undertaken for the Callaghan review found that if oil and LNG prices remain elevated, the PRRT could deliver $45bn over 10 years and $230bn to 2050, multiples of the current projections.[4]

CEF also calls for the immediate capping of the diesel fuel rebate to $50m p.a. per group operating in Australia – a move that would have no impact on any of the 25 million Australian taxpayers currently bearing a disproportionate share of the tax burden. Such a move would raise $4-5bn annually in tax receipts whilst improving our energy security and encouraging the electrification and decarbonisation of our heavy equipment fleet – four immediate benefits to Australia (Section 7.1).

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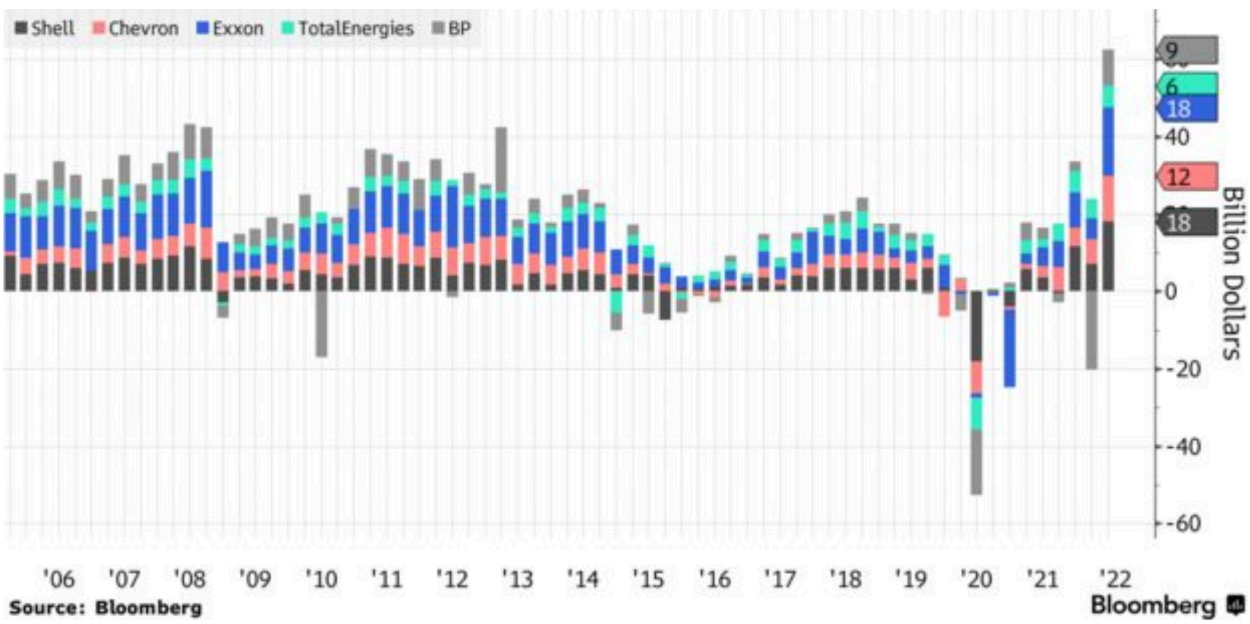
[2] Bloomberg, "Mining Giant Glencore Strikes One of Japan's Most Expensive Ever Coal Deals", 27 July 2022
[3] AFR, "Qld would accept lower royalties to help east coast gas crisis", 3 August 2022
[4] AFR, "Gas tax leaks billions as energy prices soar", 20 June 2022

For NSW, replicating the political bravery of Cameron Dick and implementing a progressive coal export royalty model could see a fivefold increase in NSW royalty receipts to $26bn p.a. for as long as coal prices sustain anything like current pricing (Section 3). This would have zero impact on domestic power prices and yet would give NSW Treasurer Matt Kean ample fiscal capacity to expedite emergency payments to several million people across NSW most harshly hit by rampant fossil fuel price inflation in 2022, and to fund energy efficiency and distributed energy solutions (induction cookers, ground heat pumps, rooftop solar) to permanently reduce reliance on fossil fuels, as explained by Professor Saul Griffith.[5]

War profiteering by fossil fuel firms is clear, with the five supermajors reporting a combined net profit of over US$60bn in 2QCY2022 alone – Figure 1.3.

The Australian government inherited a structural deficit and a record high $1 trillion of debt from the previous government, as well as a commitment to the regressive and unfunded stage three tax cuts.[6] This report highlights four key ways the Federal government can materially reduce this inherited budget deficit.

Figure 1.3: The Fossil Fuel Supermajors report an all time record profit US$60bn in 2QCY2022



[5] Saul Griffith, "The Big Switch: Australia's Electric Future", February 2022
[6] The Sydney Morning Herald, "The tax-cut promise Albanese should never have made, and must break", 13 August 2022

Section 2: Queensland Coal Royalties

As a way of funding a 60% increase in Queensland Health spending since 2015/16 and other crucial public investments, the Queensland state government budget of June 2022 introduced a materially more progressive coal royalty structure from 1 July 2022, adding at the top end to the previous three tiers of 7% below A$100/t, 12.5% for the next A$50/t and 15% above A$150/t. A further three tiers were added to give the state a 20% share when coal prices are over A$175/t, rising to 30% when prices are over $225/t and a 40% share when prices are over A$300/t – as per Figure 2.1.

We note that even at the top rate, the coal mining firms are still receiving 60% of all windfall revenues above A$300/t. With zero extra costs other than the normal 30% corporate tax (if they are an Australian corporate), this is pure profit for the firms involved.

Figure 2.1: Queensland's Progressive Coal Royalty Structure FY2023

- Up to and including A$100 – 7% of value
- Over $100 and up to and including $150
  - *First $100 – 7% of value*
  - *Balance – 12.5% of value*
- Over $150 and up to and including $175
  - *Balance – 15% of value*
- Over $175 and up to and including $225
  - *Balance – 20% of value*
- Over $225 and up to and including $300
  - *Balance – 30% of value*
- Over $300
  - *Balance – 40% of value*

Coking Coal	Rate	$/t	%
Current price US$/t		300	
AUD/USD		0.70	
Current price A$/t		429	
Qld coal Royalty			
First $100	7.0%	7.00	7%
Next $50	12.5%	6.25	6%
Next $25	15.0%	3.75	4%
Next $50	20.0%	10.00	10%
Next $75	30.0%	22.50	22%
Beyond $300	40.0%	51.43	51%
Total Royalty	23.6%	100.93	100%

Source: Queensland Government: Mining Royalty Rates

Queensland's budget projects $3-5bn pa of coal royalties over the coming four years - Figure 2.2.

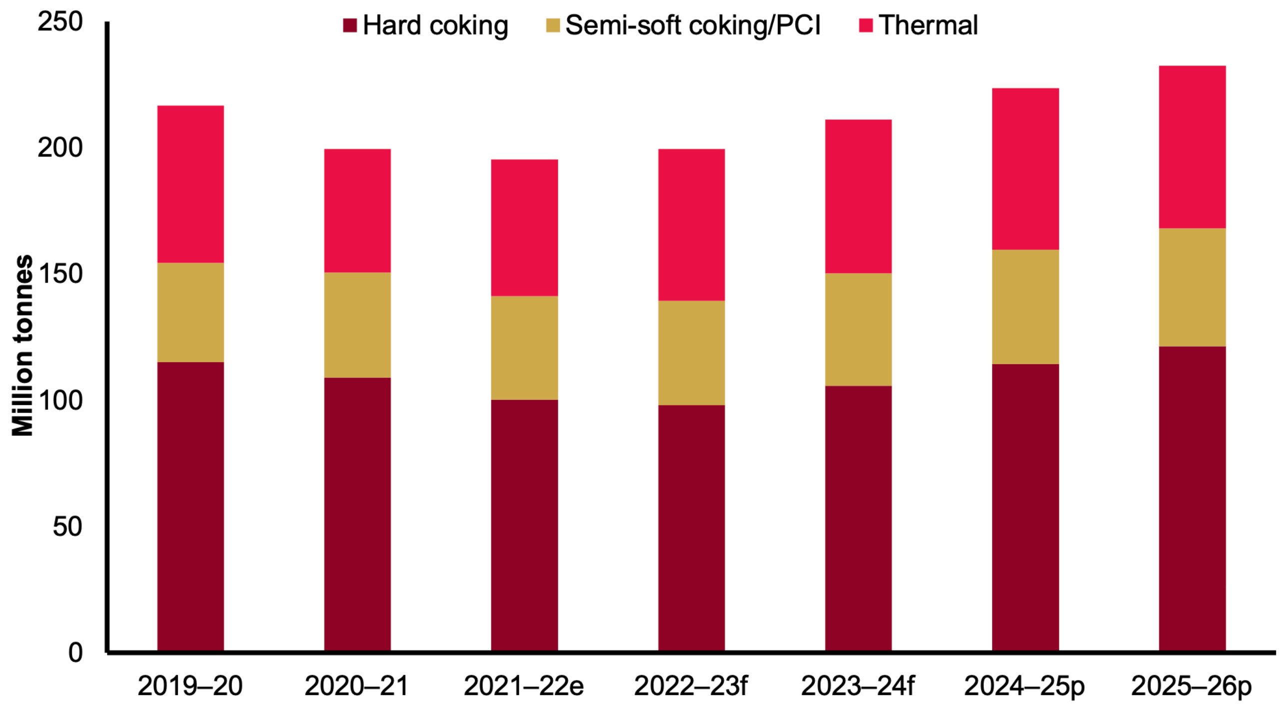
Figure 2.2: Queensland State Budget, Fossil Fuel Royalties (A$bn)

A$bn	2020/21 Act.	2021/22 Est.	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast
Coal	1.74	7.29	5.48	3.30	3.54	3.70
Petroleum & LNG	0.30	1.19	1.63	1.12	1.03	1.00
Coal Exports						
Tonnes (millions)	193	187	196	209	222	231
Hard Coking Coal (US$/t)	117	364	206	160	160	160
Thermal Coal (US$/t)	69	140	128	90	90	90
Currency - USD to AUD	0.75	0.73	0.74	0.75	0.75	0.75

Source: Queensland Government Budget, June 2022

A key input to the coal royalty calculations is the type of coal exported. A quarter of Queensland's coal exports are thermal coal, the balance is coking coal (primarily hard coking coal, but some semi-soft coking coal) - Figure 2.3.

Figure 2.3: Queensland Coal Exports, by Coal Type



Source: Queensland Government Budget, June 2022

As per Figure 2.1, at current spot export prices of coking coal of US$300/t (A$429/t), this would see Queensland get an average 23.6% of the price, double its share under the royalty scheme applying in 2021/22. If the price of coal drops to its average price over the last decade, the royalty rate applying in future years would be identical to that applying in 2021/22. This a very progressive war-profits tax that will only apply if coal prices stay elevated at double the long term average, a very unlikely scenario longer term.

This hasn't stopped the coal industry complaining about how unfair it is to share windfall war-profiteering,[7] and threatening about how they will lobby the Government going into the next election.[8] As to BHP's claims it will damage Australia's international investor reputation, this assertion belies the growing Glasgow Alliance for Net Zero Emissions (GFANZ) pledges to invest in line with a 1.5°C trajectory and to halve emissions by 2030.[9]

In the unlikely scenario that current export thermal and coking coal prices and currency rates remain for the full fiscal year ahead, Queensland's 2022/23 budget could receive royalties of over A$20bn, a fourfold uplift relative to the assumed $5.48bn coal royalty included in the budget, as per Figure 2.2.

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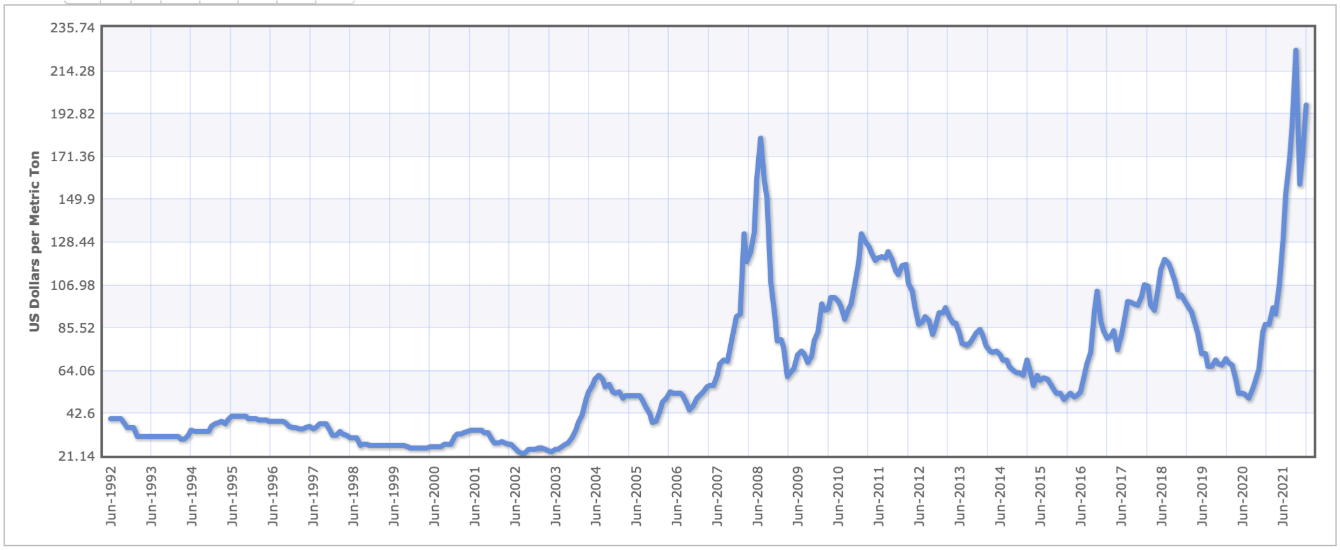
[7] AFR, "Miner risks workers' lives, whines levy will cost jobs", 23 June 2022
[8] AFR, "Queensland coal royalty increase will scare investors away: BHP", 14 July 2022
[9] Glasgow Financial Alliance for Net Zero

Section 2.1 A note on coal export prices

Thermal Coal

We note coal export prices have never stayed above A$300/t for long. Thermal coal export prices in the last 30 years have never been above US$180/t (A$210/t) prior to 2021 – Figure 2.4. The current thermal coal Newcastle 6,000kcal export price is US$411/t (A$586/t). July 2022 saw Glencore settle one of the highest ever thermal coal delivery contracts into Japan for 2022/23 at US$375/t.[10]

Figure 2.4: Thermal Coal Export Prices US$/t (1992-2022)



Source: Index Mundi

Since the start of 2021 thermal coal export prices have experienced unprecedented hyperinflation due in large part to Russia's restrictions of fossil gas exports to Europe. Since Putin's Ukraine invasion in February 2022 thermal coal export prices have averaged over US$300/t (A$430/t) – Figure 2.5.

The Office of the Chief Economist forecasts Australian thermal coal exports of 199Mt in 2022/23, delivering a record A$44bn of export revenues, predicated on an average price of A$223/t, less than half lower than current rates.

[10] Bloomberg, "Mining Giant Glencore Strikes One of Japan's Most Expensive Ever Coal Deals", 27 July 2022

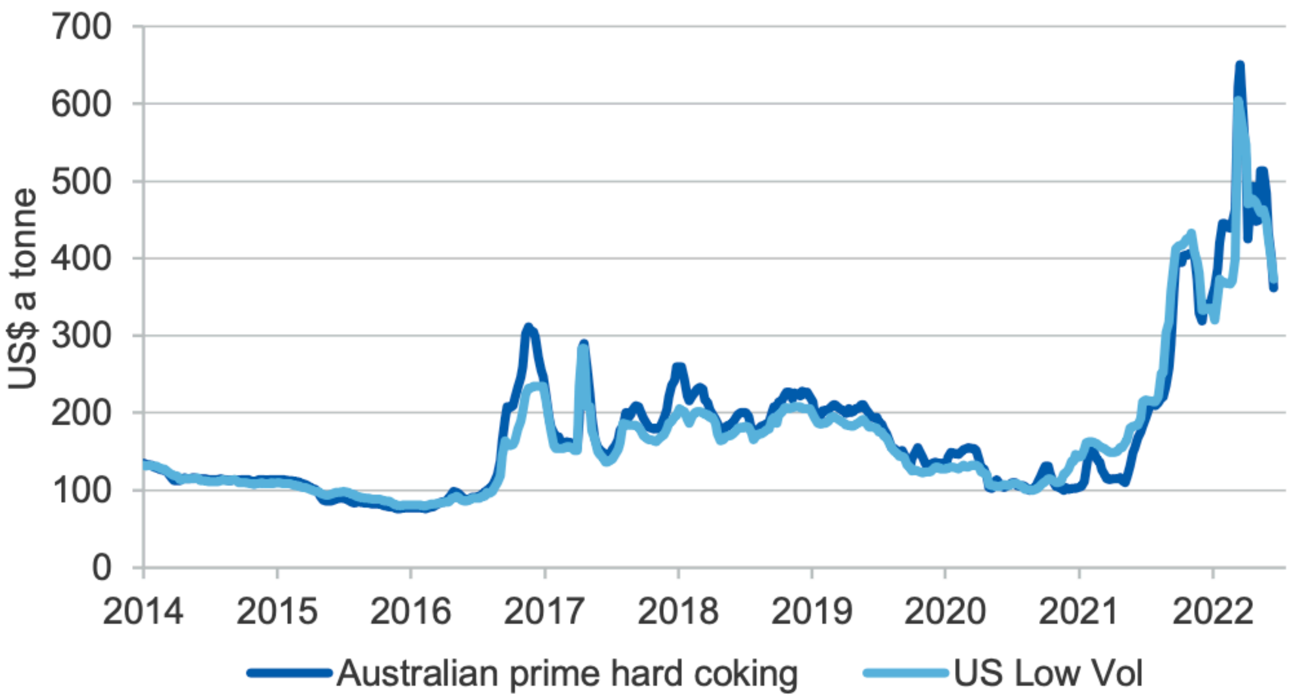
Figure 2.5: Thermal Coal Export Prices US$/t (2017-2022)

Source: Trading Economics

Coking Coal

Queensland is primarily (75% by volume) an exporter of hard and semi-soft coking coal used in manufacturing virgin steel. Coking coal prices hit a peak of US$300/t (A$400/t) for a month in 2016. Over the last 12 months, coking coal prices have exceeded an unprecedented US$400/t (A$550/t) – Figure 2.6. With the rapid cooling of the Chinese economy (China produces half the world's steel, ten times the size of the next largest steel manufacturer, Japan), the coking coal price has dropped to a still high US$300/t, translating at A$/US$0.70 means the July 2022 coking coal price is a still unprecedented A$429/t.

Figure 2.6: Coking Coal Export Prices Australian vs US, FOB, US$/t (2014-2022)



Note: Low Vol = low volatile coking coal, FOB = free on board
Source: Office of the Chief Economist, Resources and Energy Quarterly June 2022, IHS

The Office of the Chief Economist forecasts Australian coking coal exports of 171Mt in 2022/23, delivering a record A$60bn of export revenues, predicated on an average price of A$350/t, 20% lower than current rates, despite the decline of export volumes in recent months due to eastern seaboard flooding (the irony of extreme weather events getting more frequent, although given the price strength this underpins, this cost is borne by foreign steel manufacturers, not Australia).

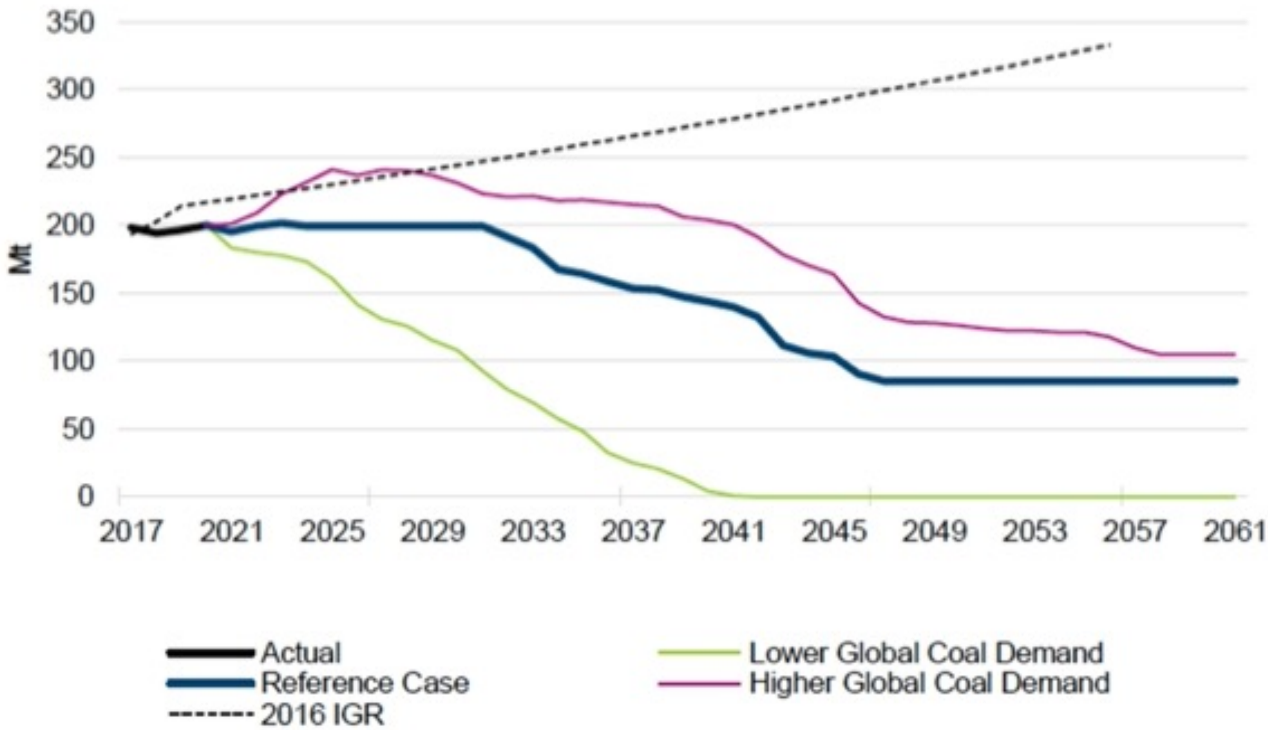
Queensland coal export volumes were down 5% yoy in 1HCY2022 to 94.3Mt.

Section 2.2 Coal Industry Lobbying Against Windfall Taxes

After the very positive surprise by Queensland Treasurer Cameron Dick to introduce a more progressive royalty system to give Queenslanders a fairer share of the windfall war-profits following into the fossil fuel firms using Australia's public assets for private, largely tax-haven based gain, there has been an attempt to drum up a fear campaign by the pro-fossil fuel media [11] to undermine this imitative – like happened with the Mining Superprofits Tax, and lobbying prevent other Australian governments from raising a Carbon Export Windfalls Tax to offset some of the collective pain of the triple hit to Australians from the concurrent fiscal, domestic energy and climate crises.

The hollow threat of withholding capital from new greenfield project developments in the Australian coal mining sector is ironically likely to protect the coal industry from the inevitable global demand destruction of hyperinflation in fossil fuel prices in 2021/22. NSW Treasury projects that due to the growing global initiatives to address the unequivocal climate science and unsustainability of high emissions industries, starting with thermal coal, the coal workforce of NSW could decline to zero as soon as 2040 – Figure 2.7.

Figure 2.7: NSW Treasury projected coal volumes 2021 vs 2016 (Mt)



Source: NSW Treasury [12]

[11] Australian Financial Review, "Whitehaven urges NSW to keep hands off coal cash cow", 18 July 2022
[12] NSW Treasury. The Sensitivity of the NSW Economic and Fiscal Outlook to Global Coal Demand and the Broader Energy Transition for the 2021 NSW Intergenerational Report. Page 19 May 2021

Whitehaven Coal

July 2022 saw Whitehaven Coal CEO Paul Flynn publicly threaten the NSW Government ahead of the March 2023 election that his firm will use some of its $3bn in windfall war-profits in FY2022 to lobby against the LNP if they dare to consider raising a progressive coal royalty regime like Queensland. [13]

In CEF's view, it is long overdue that firms using finite public assets with massive negative externalities for their own private gain should be barred from advertising and donations, like property developers. These vested interests undermine our democracy, and are lobbying for actions entirely inconsistent with the climate science and our need for a sustainable economic future.

Whitehaven has invested in the Winchester South thermal and coking coal mine proposal in Queensland. Whitehaven said the progressive coal royalty was "very negative", and supported this rhetoric by saying it had reduced the NPV of the undeveloped Winchester South proposal by 3%. This is a minor rounding error, inconsequential in the scheme of a desktop financial model. The NPV would be far more substantially impacted by a single interest rate move by the RBA, or a 1c move in the A$/US$, or a $50m per annum per firm cap to the diesel fuel subsidy (refer Section 7.1).

Whitehaven also threatened the NSW government by saying it would hold off on a final investment decision on their already long delayed Vickery coal mine proposal. Flooding the global seaborne thermal coal market with more supply will lower equilibrium prices, eroding Whitehaven's profitability significantly more than a progressive royalty that only cuts in at a one-in-fifty year price extremes.

In contrast, the Chair of the Glasgow Finance Alliance for Net Zero (GFANZ) – speaking on behalf of nearly 500 global financial institutions managing a collective US$130 trillion of assets – has called on Australia to have a greater degree of realism about the future of high emissions fossil fuels, particularly coal.[14] The 43% emissions reduction target for 2030 from Australia's all time record high emissions base of 2005 is a very good start, but clearly not aligned with the climate science. That Australia is entirely abrogating our Paris Agreement responsibilities with regard to scope 3 exported emissions ignores the global challenge, and ignores the inevitably chaotic collective response that will have to come about if we collectively are to have any chance to limit extreme weather events becoming more extreme and more frequent. This also undermines the ability of Australia to seize the full opportunities ahead for our country to be a renewable energy and value-added future facing commodities export superpower.

[13] Australian Financial Review, "Whitehaven urges NSW to keep hands off coal cash cow", 18 July 2022
[14] Bloomberg, "Australia Needs More Realism on Coal's Future, Carney Warns", 28 July 2022

BHP

BHP CEO Mike Henry was reported [15] in July 2022 as saying early closures were a risk with investment and jobs threatened by the windfall profits progressive royalty regime of Queensland. Henry also claimed this was one of the world's highest royalty regimes, parroting the Queensland Resources Council lobbyists, in ignorance of the fact that the world's largest coal mining firm, Coal India Ltd, pays an average 40% of gross revenues in corporate tax and royalties (refer Section 8), multiples of the average over-the-cycle rate applying to BHP.

We would view this as a largely idle threat given the higher royalty rates would have had a material impact only at peak cycle prices, such as now: BHP booked a 73.2% EBIT return on assets in its Queensland coal division in FY2022 – Figure 2.8, seven times BHP's cost of capital. Evaluating the theoretical royalty impact retrospectively would see no extra royalty in FY2021, and just US$2/t extra in FY2020 (cutting EBIT by US$78m or 6%, and the return on assets from 15.3% to 14.4%). This would make an immaterial difference to any overall project viability, if the project is robust to start with. In a year of windfall profits on record high export coal prices like FY2022, royalties for BHP's Queensland BMA coking coal division alone would have been US$1.3bn higher for Queenslanders.

Figure 2.8: BHP's Queensland Coal P&L (FY2020-FY2022)

BHP Queensland Coal (US$M)	FY2022	FY2021	FY2020
	(Just BMA)		
Revenue	10,254	4,315	5,357
Less: royalties	1,282	330	498
Less: operating costs	2,637	3,392	2,924
Underlying EBITDA	6,335	593	1,935
D&A	627	735	684
EBIT	5,708	-142	1,251
Net operating assets	7,802	7,843	8,168
Sales (kt, equity share)	29,049	40,619	41,086
Cost per tonne (US$) pre-royalties/frieght	89.06	81.81	67.59
Price per tonne (US$)	352.99	106.23	130.39
USD / AUD	0.73	0.75	0.67
Price per tonne (A$)	483.55	141.64	194.60
Cash return on assets	81.2%	7.6%	23.7%
EBIT return on assets	73.2%	-1.8%	15.3%
Royalty - old US$/t	44.13	8.12	12.12
Royalty - new US$/t	89.73	8.12	14.02
Royalty rate - old	12.5%	7.6%	9.3%
Royalty rate - backtested on new rates	25.4%	7.6%	10.8%
Royalty difference (US$m)	1,325	0	78

Source: BHP Results, CEF calculations

[15] Couriermail, "Hike puts mines at risk: BHP", 20 July 2022

Section 3: NSW Coal Royalties

The NSW government applies a 8.2% royalty rate for open cut coal and 7.2% of value of underground coal (6.2% of value for much higher cost deep underground coal). This flat royalty rate has been held flat for many years, creating a massive missed opportunity for NSW taxpayers to slow the escalating net debt due to ongoing fiscal deficits, running at a forecast A$11.3bn in 2022/23 alone.

Figure 3.1: Coking Coal Export Prices Australian vs US, FOB US$/t (2014-2022)

A$bn	2020/21 Act.	2021/22 Est.	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast
Coal	1.42	3.64	4.05	2.80	2.26	1.97

Source: NSW Budget Papers, June 2022

In Figure 3.2 we compare the NSW June 2022 budget estimates for coal royalties in 2022/23 at $4.05bn to our estimate of $26.9bn – that being the estimated royalties in a single year if current spot prices were maintained for the full fiscal year, and if NSW had the courage of Queensland Treasurer Cameron Dick, in best serving the people of NSW rather than vested interests. The $23bn difference would have seen NSW be targeting a surplus in 2022/23 rather than the $11.3bn deficit.

Figure 3.2: NSW Coal Royalties in 2022/23 estimates: 2022 budget estimates vs what royalties could have been if spot prices are maintained, and using Queensland's progressive royalty rates

		FY2023 NSW Budget	FY2023 Spot prices @ Qld Rates
Thermal coal	Mtpa	149	149
	Price (US$/t)	$194	$410
	Price (A$/t)	$269	$586
	Value (A$m)	$40,194	$87,418
	Royalty rate	8.2%	28.0%
	Royalty (A$m)	$3,296	$24,445
Coking Coal	Mtpa	25	25
	Price (US$/t)	$306	$300
	Price (A$/t)	$425	$429
	Value (A$m)	$10,470	$10,553
	Royalty rate	7.2%	23.6%
	Royalty (A$m)	$754	$2,485
NSW total royalty (A$m)		$4,050	$26,930

Source: NSW Budget Papers, June 2022, Climate Energy Finance Calculations

Section 4: Queensland Fossil Gas Royalties

Queensland state royalties on oil and gas range have risen from the 2020/21 low of just $0.3bn or 2.7% revenue share due to very low oil and fossil gas prices, to an estimated $1.6bn or 5.9% share in 2022/23, reflective of the Queensland Government's Treasurer Cameron Dick implementing from 1 October 2020 a more progressive oil & gas royalty system, rather than the flat 12.5% of well head value of gas previously.[16] This followed a working group chaired by former South Australian premier Jay Weatherill which analysed different royalty models and consulted with industry.

Whilst 5.9% is a third higher share that the Federal royalty share of revenue, the fact this new deal was greeted with extreme enthusiasm by the gas industry and its ex-government ministers turned vested interest lobbyists at APPEA, QRC and MCA shows the state government was too generous, particularly in agreeing to a five year freeze as part of the deal with the fossil gas industry.[17] IEEFA calculates this as a $5bn p.a. revenue loss relative to a fair progressive royalty scheme.[18]

We note that according to OpenNEM, the 1HCY2022 Queensland wholesale electricity price averaged A$256/MWh, more than triple the $77/MWh average evident in the previous corresponding period. Fossil gas is the marginal price setter for a significant part of the time. When combined with the increasingly unreliable coal power fleet outages, this has caused a domestic energy crisis across Eastern Australia in 2022.

We note that in the approval of the six LNG export trains at Gladstone, the Queensland and Federal Governments relied on corporate representations that they would develop new gas production to accommodate their private export projects and their entirely self-serving and wrong claims these developments would have no impact on Eastern Australian gas prices.

The July 2022 ACCC report notes that despite east coast production rising three-fold since 2015, the gas industry prioritises exports over domestic users – two thirds of production is exported, starving the domestic market and locking in export price parity or beyond.[19]

While a new east Australia gas export levy would be met with further squeals of sovereign risk by the collective voices of 5-6 mostly taxhaven based corporate CEOs, such a measure would allow the Federal Government to provide some relief to some of the 22 million Australians and manufacturing industries smashed by the still evolving current domestic energy crisis the gas cartel has inflicted.[20] [21]

Figure 4.1: Queensland State Budget, Fossil Fuel Royalties (A$bn)

A$bn	**2020/21** Act.	**2021/22** Est.	**2022/23** Forecast	**2023/24** Forecast	**2024/25** Forecast	**2025/26** Forecast
Coal	1.74	7.29	5.48	3.30	3.54	3.70
Petroleum & LNG	0.30	1.19	1.63	1.12	1.03	1.00

Source: Queensland Government Budget, June 2022

[16] Queensland Government, "Petroleum royalty rates from 1 October 2020"
[17] AFR, "New Queensland gas royalty scheme more 'transparent'", 8 June 2020
[18] IEEFA, "The Extraordinarily Profitable Gas Market Should Bring Billions More Royalties for Queenslanders", July 2022
[19] ACCC, "Gas Inquiry- 2017-2025, Interim Report", July 2022
[20] AFR, "Gas crisis to worsen next year, warns competition watchdog report", 29 July 2022
[21] The Guardian, "Australia facing 'alarming' gas shortfall in 2023 as ACCC urges producers to keep supplies onshore", 1 August 2022

We note the point that Bruce Robertson, Lead Gas analyst at IEEFA Australia has long highlighted. Catherine Tanner, CEO of BG Group, the developer of the Queensland Curtis LNG (QCLNG) project now owned by Shell, stated in October 2010: "We also expect to pay about $1bn a year in federal taxes and a further $300m or so each year in royalties to the Queensland government." [22]

The three export LNG plants at Gladstone in Queensland – Gladstone LNG (GLNG), Australia Pacific LNG (APLNG) and QCLNG – started production between December 2014 and October 2016. The FY2014-15 Queensland budget expected petroleum (gas) royalties to rise from A$68m in 2013-2014 to A$660m by 2016-2017 due to the boom in coal seam gas (CSG). The resultant royalties however were a fraction of that, at just A$98m in 2016-17.[23] For FY2020-21,[24] petroleum (gas) royalties were initially forecast to be A$620m, yet the eventual royalties were just A$298m.

IEEFA estimates that all three Gladstone LNG plants – GLNG, APLNG, and QCLNG – have at least doubled their revenue in FY2021-22. As depicted in Figure 3, the estimated increase in revenue of these three LNG exporters was about 115% year- on-year, from roughly A$10.5bn in FY2020-21 to nearly A$22.5bn in FY2021-22. This was confirmed with Origin Energy reporting a more than doubling to $9.27bn revenue for APLNG in the June 2022 year.[25]

An oligopoly of three players creating an east Australian energy crisis by their war profiteering requires a regulatory intervention, as the ACCC has argued.[26]

August 2022 started with Resources Minister Madeleine King confirming that the fossil gas producers had a clearly acceptable impact on Australia, putting at risk their social licence to operate, and she acknowledged the Australian Domestic Gas Security Mechanism (ADGSM) had proven to be an impotent tool, not fit for purpose.[27]

As The Australia Institute has argued, a windfall profits tax on oil and gas is supported by 67% of Australians in their latest poll, with only 12% opposed.[28]

And the Grattan Institute has come to the same conclusion, that a windfall profit tax may be the least-worst solution to the gas crisis.[29]

The gas industry has different specifications compared to coal that need consideration while designing a new graduated royalty scheme. Still, A$6.1bn, which is 27% of the gas industry's windfall revenue, seems a fair share that the industry should pay to increase the health and wellbeing of Queenslanders, and for services and infrastructure.

IEEFA estimates that if the Queensland government had revised its royalty structure for financial year 2021-22, it could have delivered A$6.1bn in royalty revenue just from the gas industry. This would be about A$5bn more than the Queensland government's current petroleum (gas) royalty revenue estimates for the same financial year. In not revising its gas royalty structure, the Queensland government is essentially forgoing this money that could deliver game-changing relief for the state's current financial and energy crisis.

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[22] News Ltd. BG Group announces $15bn LNG project. 31 October 2010.
[23] Queensland State Budget 2018-19, "Budget Strategy and Outlook. Budget paper No. 2", Page 181.
[24] Queensland Budget 2022-23, "Budget Strategy and Outlook, Budget Paper No.2", Page 86.
[25] AFR, "Origin Energy's LNG revenue doubles in 2022", 29 July 2022
[26] AFR, "Labor urged to trigger gas export controls", 1 August 2022
[27] AFR, "King readies gas trigger, as exporters lose 'social licence'", 1 August 2022
[28] The Australia Institute, "Polling – Windfall profits tax on oil and gas", June 2022
[29] The Grattan Institute, "A windfall profit tax may be the least-worst solution to the gas crisis", June 2022

Section 5: Federal Petroleum Rent Resources Tax

The Federal Government notionally charges the Petroleum Rent Resources Tax (PRRT) on a project basis at a rate of 40% on taxable upstream profits, in addition to 30% company tax on profits. Federal government receipts peaked two decades back in 2000/01 at $2.38bn and have more than halved since to just $0.9bn in 2020/21 despite massive volume increases.[30]

One of the biggest subsidies undermining the PRRT was the move in May 2004 by then Treasurer Peter Costello to increase the value of exploration deductions in frontier areas from 100% to 150% from the PRRT payments.

The second obscene subsidy was the introduction of an annual uplift rate of ~18% pa (calculated at the long term borrowing rate (LTBR) +15% pa) on exploration expenditure incurred till July 2019. This was curtailed to a LTBR+5% pa uplift rate from July 2019.[31] This unparalleled generosity meant that by 2017/18 the multinational gas industry had accumulated a reported $324bn of tax credits.[32]

The PRRT has been gamed beyond belief, to the point where there have been ongoing calls for repeal and introduction of a new royalty system for offshore gas. Of course the gas cartel CEOs would in unison with their APPEA lobbyists scream sovereign risk, but when we have a concurrent fiscal, energy and climate crisis combined with regulatory capture by the fossil fuel industry of our Federal government for a decade, global investors and 25 million Australians would entirely ignore this overt self-serving hollow rhetoric.

With a more than doubling of the oil price, a tenfold increase in Asian LNG prices and the A$/US$ decline, the budget forecasts a recovery to $1.7bn in 2021/22 and $2.4bn in 2022/23 – Figure 5.1.

Figure 5.1: Australian Federal Government Budget, A$bn (FY2020-FY2023)

A$bn	FY2020 a	FY2021 a	FY2022 e	FY2023 e
Total Taxation	447.5	473.9	512.5	508.4
Total Receipts	486.3	520.0	556.6	547.6
Total expenses	578.5	639.6	628.5	643.8
Deficit	(96.3)	(119.6)	(71.9)	(96.2)
Components				
Interest	16.9	18.5	19.8	21.2
Company tax	84.8	98.8	109.1	90.2
PRRT	1.1	0.9	1.7	2.4
Excise on petrol and diesel	17.8	18.7	16.7	18.9
Fuel Tax credits	7.3	6.9	7.7	9.3
Renewable energy	0.3	0.4	0.4	0.4

Source: Australian Government budget papers, CEF calculations

[30] Kevin Morrison, Damien Giurco, UTS Institute for Sustainable Futures (ISF), Federal Government Corporate Tax Avoidance submission 148, 3 Feb 2017
[31] Australian Treasury, "Response to the Petroleum Resource Rent Tax Review", Jan 2019
[32] ABC, "Tax credits for oil and gas giants rise to $324 billion", 1 April 2019

With a budget deficit of $119.6bn in 2020/21, and a further $71.9bn deficit forecast for 2021/22 just finished, now is the time for the Federal government to look for all sources of tax that are massively underperforming, and where subsidies are entirely inconsistent with the combined fiscal-energy-climate crises. We recommend three changes:

1. The obvious starting point is to tighten up corporate tax rules that currently enable multinationals operating in Australia to avoid paying a fair share of corporate tax – refer Section 6.
2. Cutting or capping mis-aligned fossil fuel subsidies would be a second key area, particularly given the war profiteering going on by the key, largely foreign beneficiaries of six decades of largesse. The diesel fuel rebate of $7-9bn annually leaves Australian residents shouldering an unfair share of taxes ($17-19bn annually of petrol and diesel excise) whilst also undermines Australia's energy security and the overdue investment in decarbonisation of our remote mining equipment fleet – refer section 7.
3. The third opportunity is to address the systemic failure of the PRRT to raise any material royalties to the Federal government, running at an average $1.0bn in the last two reported fiscal years. There has been a tenfold increase in Asian LNG prices, and an entirely related fivefold increase in East Australian domestic gas prices and electricity prices. The PRRT contribution is forecast to rise to $2.4bn in 2022/23 accounting for less than 6% of revenues generated.

It was reported in June 2022 that under directions from then Prime Minister Malcolm Turnbull, former Treasury official Mike Callighan undertook a detailed review in 2016, and then Treasury held further consultations in 2019 and 2020 with the energy industry including BHP, Chevron, Shell and Woodside Energy, but that the former Government of Scott Morrison failed to implement these suggestions.

Figure 5.2: Australian Fossil Gas Production & Exports, (FY2020-FY2023)

		FY2020 a	FY2021 a	FY2022 e	FY2023 e
Western + Northern	BCM	102.3	95.0	102.0	104.0
Eastern	BCM	55.3	57.0	55.0	54.0
Total	BCM	157.6	150.0	157.0	157.0
LNG Exports	Mt	79.3	77.0	82.0	81.0
LNG Exports	A$bn	47.6	30.5	70.2	82.0
Western + Northern/Total	Share	65%	63%	65%	66%
Western + Northern	A$bn	30.9	19.3	45.6	54.3
Eastern	A$bn	16.7	11.2	24.6	27.7
PRRT	A$bn	1.1	0.9	1.7	2.4
Qld Oil & Gas royalties	A$bn	0.5	0.3	1.2	1.6
PRRT / W + N LNG export value		3.4%	4.6%	3.6%	4.4%
Qld royalties / Eastern Exports		2.8%	2.7%	4.8%	5.9%

Source: Office of the Chief Economist Quarterly Resources and Energy Reports, Federal and Queensland Budget papers, CEF calculations

Modelling undertaken for the Callaghan review found that if oil prices remain elevated at $US100 a barrel and stay there, the PRRT could deliver $45bn over 10 years and $230bn to 2050.[33]

We have estimated the volume and value of LNG from largely offshore oil and gas production using the Office of the Chief Economist reports by stripping out the onshore eastern Australian gas production, which pays state royalties. Comparing this to the PRRT receipts shows Federal royalty receipts of 3.4% to 4.6% annually - Figure 5.2. Qatar has been reported to receive up to ten times this royalty rate.[34]

Queensland state royalties on oil and gas range from a low in 2020/21 of just $0.3bn or 2.7% due to very low oil and fossil gas prices, to an estimated $1.6bn or 5.9% in 2022/23, reflective of the Queensland Government's Treasurer Cameron Dick implementing from 1 October 2020 a more progressive oil & gas royalty system, rather than the flat 12.5% of wellhead value of gas previously.[35] Whilst 5.9% is a third higher share than the Federal royalty share of revenue, the fact this new deal was greeted with extreme enthusiasm by the gas industry and its ex-government ministers turned vested interest lobbyists shows the state government was too generous, particularly in agreeing to a five year freeze.[36] The fact that 22 million Eastern Australians are now suffering a domestic energy crisis in 2022 at the time of war-profiteering by the multinational gas cartel is crystal clear in how corrupted the use of Australia's public resources has become.

[33] AFR, "Gas tax leaks billions as energy prices soar", 20 June 2022
[34] The Conversation, "In the midst of an LNG boom, why are we getting so little for our gas?" February 17, 2020
[35] Queensland Government, "Petroleum royalty rates from 1 October 2020"
[36] AFR, "New Queensland gas royalty scheme more 'transparent'", 8 June 2020

Section 5.1 An East Coast Gas Export Levy

Dr Ken Henry in June 2022 suggested the Federal Government look at introducing a new gas export tax which would immediately improve the economics of diverting domestic eastern Australian gas production back to serving Australian consumers first, and exporting the surplus.[37] Any suggestion that the solution is for yet more gas production ignores the fact that east Australian gas production has trebled in the last decade.[38] Export price parity is the new norm outside of West Australia, absent a regulatory solution to the gas cartel's gouging of Australia.

NSW Energy Minister Matt Kean has clearly articulated the issue of the domestic fossil gas shortfall the ACCC is forecasting: "That shortfall needs to be met. What we need to do is prioritise Australian gas for Australian gas users ahead of companies making super profits and exporting that gas offshore." And Victorian Energy Minister Lily D'Ambrosio has reinforced this: "This country produces more than sufficient gas to meet our domestic needs … the problem is too much of it has been allowed to be exported at our own cost and that's got to change … this country produces more than enough gas but for some set of bizarre reasons we had a gas crisis."[39]

A new Federal levy on all gas exports from East Australia would prioritise east coast gas production to Australian domestic users – residential and commercial as the first priority, with the six LNG trains owned by the tax-haven based gas cartel exporting the surplus. This would bring in new tax revenues while immediately lowering the domestic cost of gas in East Australia, with the immediate flow-on benefit of lowering electricity prices. There is no gas production shortage, if domestic gas users are willing to pay the price set by the gas cartel. A new levy would lower the price of domestic gas by the amount of the levy – the larger the levy, the more domestic gas prices would fall.

This would immediately solve the eastern Australian energy crisis that is smashing Australian industry,[40] and avoid the farcical stranded asset proposals by proponents like Andrew Forrest's Squadron Energy seeking taxpayer funded subsidies to build import LNG terminals at Port Kembla[41] and Viva Energy's Melbourne refinery [42] to reimport Australia's fossil gas exports from Queensland. AGL Energy has already written off $130m on its now-cancelled Victorian LNG re-importation terminal proposal for Crib Point.[43] Even APA Group notes these proposals are desperate and wasteful.[44]

The Australia Institute's Richard Denniss estimates that Norway, population of 5.3 million, will collect $137bn in tax from their oil industry. They had expected $95bn but will collect nearly 50% more than planned, mainly because of higher oil and gas prices. That's what a good resource tax system looks like.[45] And Norway has the world's largest sovereign wealth fund with assets of A$1.8 trillion (US$1.36 trillion) as a result.

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37 ABC, "Gas export tax would help to fix Australia's energy crisis, says Dr Ken Henry", 21 June 2022
38 AEMO, "Gas Statement of Opportunities", March 2022
39 The Guardian, "Energy ministers criticise gas companies prioritising 'super profits' as regulator given more powers", 12 August 2022
40 ABC, "Gas users and experts call for federal crackdown on east coast 'gas cartel'", 11 August 2022
41 AFR, "Twiggy's LNG venture proposes AEMO-backed fast-track", 10 August 2022
42 Reuters, "Australia's Viva Energy presses state to approve LNG import terminal", 5 August 2022
43 The Australian, "AGL abandons LNG import plan at Western Port Bay", 3 May 2021
44 AFR, "AWU slams Twiggy over green hydrogen crusade", 15 August 2022
45 The Guardian, "It's time to tax mining and energy giants properly. Struggling Australians should share in their record profits", 10 August 2022

Section 6: Multinationals Corporate Tax Reform Long Overdue

"One of the invidious aspects of globalisation is that it's opened up a Pandora's box of ways by which multinationals avoid taxation. It's particularly objectionable when the multinationals make their profits extracting Australia's resources – resources which really belong to the people of the country – and when the multinationals undermine the viability of domestic firms."

Nobel laureate economist Joseph Stiglitz, July 2022[46]

Australia's Albanese government has inherited over a $1 trillion of public debt and a US$80bn annual fiscal deficit, a financial crisis at a time Australia is also being hit with a climate crisis and a domestic energy crisis (at least, on the east coast where we have no domestic gas reservation).

CEF sees merit in a Carbon Export Windfall-profits Tax (CEWT) as a way of starting to address all three crises concurrently. The CEWT should entail a progressive state based royalty system, a cessation of fossil fuel subsidies (Section 7), including capping the diesel fuel rebate (Section 7.1) and a total revamp of the failed Federal PRRT (Section 5). The removal of the massive competitive advantage conferred on the fossil fuel multinationals using Australia's public finite resources for their largely tax haven based foreign gain, requires multinationals pay a fairer share of corporate tax relative to their listed domestic Australian corporate peers.

CEF endorses the OECD Pillar Two model rules announced in December 2021 to address the tax challenges arising from digitalisation and globalisation of the economy, as agreed in October 2021 by 137 countries and jurisdictions under the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS). The rules define the scope and set out the mechanism for the so-called Global Anti-Base Erosion rules under Pillar Two, which will introduce a global minimum corporate tax rate set at 15%. The minimum tax will apply to Multinationals with revenue above €750m which are estimated to generate US$150bn in additional global tax revenues annually.[47]

However, waiting for OECD agreement on multinationals paying a remotely fair share of corporate tax in Australia requires a degree of patience spanning decades, particularly as it is primarily US and EU multinationals involved. Some 36% of multinational profits are shifted to tax havens globally.[48]

We need to remove the competitive disadvantage imposed on domestic Australian corporates who do the right thing, and pay a fair share of corporate tax. BHP paid an average corporate tax over FY2020-FY2022 of 36.9% (Figure 6.1), whilst Rio Tinto averaged 29.6% (Figure 6.2) and Fortescue Metals Group averaged 29.7% (Figure 6.3). Even Woodside paid a 32% corporate tax rate in CY2021 (booking a massive loss in CY2020 meant Woodside also booked an offsetting tax credit (Figure 6.5)).

Australian listed corporates generate a massive shareholder benefit by paying their corporate tax within Australia, so that shareholders receive fully franked dividends, a brilliant Paul Keating mechanism to encourage good corporate citizenship and limit double taxation. The vast pools of franking credits in these firms is testament to the effectiveness of franking for Australian corporates paying tax here in Australia.

[46] The Saturday Paper, "Joseph Stiglitz on how to make Australia richer", 23 July 2022
[47] OECD, "OECD releases Pillar Two model rules for domestic implementation of 15% global minimum tax", 20 Dec'2021
[48] "The Missing Profits of Nations", 22 July 2022

Given Australia's sustained fiscal deficit, someone has to pay more tax. CEF would prefer that Swiss billionaire-owned, corrupt [49] Glencore booking $26bn pa of sales from Australian public resources pay something remotely reasonable, than the poorest Australians continue to be smashed.[50]

The ATO reported in July 2022 that some of the most egregious tax avoidance measures have been closed down in the last few years.[51] The reported $11bn tax recoveries since 2017 is significant, but in the context of the annual revenues involved, there is huge scope to tighten the net dramatically more. July 2022 saw Rio Tinto commit to paying A$991m in settlement of its various ATO disputes, largely around use of offshore marketing hubs and overstated offshore borrowing costs.[52] The rulings about use of "offshore marketing hubs" was a major step forward,[53] as was the Federal Court win against Chevron for deliberate evasion by use of artificial borrowing costs on interparty loans suggests this is the tip of the iceberg, given the ATO estimates of $420bn of related-party loans in 2014-15 by multinationals operating in Australia.[54]

Figure 6.1: BHP Corporate Tax, US$bn (FY2020-FY2022)

US$bn	FY2020	FY2021	FY2022
Sales	42.9	60.8	65.1
Pretax Profit	13.5	24.6	33.1
Corporate Tax Expense	4.7	10.9	10.4
Corporate Tax Rate	34.8%	44.4%	31.5%

Source: Company Accounts, CEF calculations

Figure 6.2: Rio Tinto Corporate Tax, US$bn (CY2020-1HCY2022)

US$bn	CY2020	CY2021	CY2022 (1H annualised)
Revenue	44.6	63.5	59.6
Pretax Profit	15.4	30.8	24.6
Corporate Tax Expense	5.0	8.3	5.6
Corporate Tax Rate	32.4%	26.8%	22.7%

Source: Company Accounts, CEF calculations

Figure 6.3: FMG Corporate Tax, US$bn (FY2020-FY2022)

US$bn	FY2020	FY2021	FY2022 (1H annualised)
Revenue	12.8	22.3	
Pretax Profit	6.7	14.7	7.9
Corporate Tax Expense	2.0	4.4	2.3
Corporate Tax Rate	29.2%	30.1%	29.7%

Source: Company Accounts, CEF calculations

[49] Bloomberg, "Glencore Bribery Cases Draw in Billionaire Former Executives", 30 May 2022
[50] ACOSS, "The Wealth Paradox – wealth inequality and the housing crisis", 22 July 2022
[51] AFR, "'Drug cheat' resource groups pay $12b in tax as ATO breaks cycle", 25 July 2022
[52] AFR, "Rio Tinto cuts $1b tax settlement", 20 July 2022
[53] AFR, "Singapore slug: BHP and Rio Tinto's tax bills have reached $1.9b", 6 April 2017
[54] AFR, "Chevron loses Australia's biggest tax case", 21 April 2017

Federal Treasurer Jim Chalmers' August 2022 announcement[55] of a "public consultation on Multinational Tax Integrity and Transparency" is an important initiative, but when ExxonMobil has booked $71bn of revenue in Australia over the last seven years and paid precisely zero corporate tax, serious reform is long overdue. Increased public transparency is key to calling out avoidance.

The Australian Tax Office (ATO) should be empowered and resourced to step up the implementation of the Multinational Anti-Avoidance Law (MAAL) as part of the government's efforts to combat tax avoidance by multinational companies operating in Australia. Penalties for overt deliberate avoidance should be punitive to encourage compliance. The MAAL was established in December 2015 to ensure that significant global entities pay some corporate tax on the profits earned in Australia.[56] Given this MAAL was put in place seven years ago and limited success to-date, an independent review is well overdue. To ensure public integrity in this process, more timely public disclosure of country level accounts for multinationals operating in Australia would be a good start. This could be a pre-requisite to being allowed to continue to use Australia's finite public resources – mining and fossil fuels, or when tendering on government defence contracts, or before being eligible to continue receiving billions of annual payments under our Pharmaceutical Benefits Scheme.

In order to make all corporates pay a remotely fair share of tax and level the playing field currently titled in favour of foreign tax-haven based entities, the ATO would need to be mandated to pursue tax avoidance by the global majors, and for tax reform to close some of the myriad loopholes that allow transfer pricing, above market cost of debt by related parties and offshore booking of revenues derived from Australian customers.

Figure 6.4 details 11 fossil fuel majors included in Michael West Media's 2021 Top 40 Tax Dodgers report, updated for the FY2020 ATO results. With a combined revenues of $228bn over the last seven years, the combined tax payable of $34m in total is beyond farcical, except the joke is on Australia.

Figure 6.4: Top Australian Fossil Fuel Corporate Tax Avoiders, A$bn (2014-2020)

Company	Multinational Parent	Seven year total income A$m	Seven year taxable income A$m	Seven year margin %	Seven year tax payable A$m	Seven year tax rate %
ExxonMobil Australia	ExxonMobil (US)	71,248.5	-	0.0%	-	0.0%
Santos	ENN & Hony Capital (6.1%) (China)	27,810.7	64.7	0.2%	3.1	4.9%
Peabody Australia	Peabody Coal (US)	24,024.0	77.6	0.3%	-	0.0%
Australian Pacific LNG	ConocoPhillips (47.5%) & Sinopec (25%) *	18,465.1	-	0.0%	-	0.0%
Yancoal Australia	Yanzhou Coal (China)	21,625.6	45.2	0.2%	-	0.0%
Puma Energy Australia	Chevron (US)	15,879.2	-	0.0%	-	0.0%
BPIH (Brookfield Infrastructure)	Brookfield (Canada)	12,152.0	-	0.0%	-	0.0%
International Power	ENGIE (France)	11,167.8	-	0.0%	-	0.0%
Victoria Power Networks	CKI Spark Holdings (Bahamas)	10,793.3	77.0	0.7%	22.9	29.8%
Banpu Australia Co	Banpu Public (Thailand)	7,740.0	-	0.0%	-	0.0%
Freedom Energy	Idemitsu Kosan (Japan)	7,770.1	26.6	0.3%	8.0	30.0%

*** Origin Energy also owns 27.5%**

Source: Tax Office Transparency data, Michael West Media, 15 January 2021[57], CEF calculations

[55] Australian Government, "Public consultation begins on Multinational Tax Integrity and Transparency" 5 August 2022
[56] Australian Government's ATO, "Combating multinational tax avoidance – a targeted anti-avoidance law" 12 April 2021
[57] Michael West Media, "Revealed: Australia's Top 40 Tax Dodgers for 2021" 15 January 2021

Federal Treasurer Dr Jim Chalmers has also “made it clear” that Labor’s “tax reform priority is to be part of international developments to ensure multinationals pay a fairer share of tax where they make their profits”.[58]

We look forward to this being prioritised, given the multi-billion annual tax opportunity that would come from making fossil fuel firms extracting Australia’s public finite resources pay even a remotely fair share of corporate tax here in Australia.

Australia should ban foreign fossil fuel companies from being able to donate to our political parties, and ban any foreign firm who deliberately avoids paying Australian corporate tax at least half the rate of their Australian peers (using a ratio of cash tax paid to operating revenue rather than the accountant’s creative definition of pretax profit) from meeting with our government officials – they aren’t paying for them, we are. All multinationals should have an Australian board of Australian resident taxpayers, and that board should be required to individually sign a tax charter that they will abide by the spirit of our tax laws, rather than employ expensive lawyers and accountants to create endless artificial legal structures to siphon profits offshore without any corporate tax being paid first.

Figure 6.5 details the $5,347m corporate tax expense over the last decade of Woodside ($4,340m cash tax paid), an Australian domiciled company. This represents 10% of the $53bn of revenue booked by Woodside over the last decade. This should be a benchmark for its foreign competitors.

ExxonMobil Australia is a very similar corporation in most respects, except it is not domiciled here. As a result, ExxonMobil has paid precisely 0% of its A$71bn of its revenues in the last seven years. Paying the same % of revenue as Woodside would have seen a A$7bn tax expense paid here in Australia, roughly $10bn in a decade, for just one multinational. It was reported in July 2022 that a settlement by ExxonMobil with the ATO is pending,[59] with the MCA fossil fuel lobbyists leaping to the defence of tax avoiding multinationals with vacuous arguments.

Figure 6.5: Woodside Corporate Profit & Loss, US$bn (CY2012-CY2021)

Year ended 31 December US$m	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2012-2021 Total**
Sales	6,348	5,926	7,435	5,030	4,075	3,908	5,240	4,873	3,600	6,962	53,397
Pretax profit as reported	3,658	2,359	3,509	356	1,340	1,566	2,095	862	-5,440	3,290	13,595
PRRT refund (expensed)	523	224	88	-131	177	136	52	31	439	-297	1,242
Pretax profit after PRRT	4,181	2,583	3,597	225	1,517	1,702	2,147	893	-5,001	2,993	14,837
Tax benefit (expensed)	-1,137	-769	-1,081	-112	-544	-582	-680	-511	1,026	-957	-5,347
Cash tax received (paid) *	-604	-506	-550	-768	-172	-411	-414	-313	-331	-271	-4,340
Net profit	3,044	1,814	2,516	113	973	1,120	1,467	382	-3,975	2,036	9,490
Net profit pre-abn **	3,044	1,814	2,516	113	973	1,120	1,467	382	-52	2,036	13,413
Shareholders Equity (incl. MI)	15,827	15,958	16,659	15,025	15,662	15,880	18,322	17,409	12,875	14,229	15,785
Tax expensed as % of PTP	27%	30%	30%	50%	36%	34%	32%	57%	21%	32%	36.0%
Tax expensed as % of Sales	18%	13%	15%	2%	13%	15%	13%	10%	-29%	14%	10.0%
Cash tax paid as % of PTP	14%	20%	15%	341%	11%	24%	19%	35%	-7%	9%	29.3%
Cash tax paid as % of Sales	10%	9%	7%	15%	4%	11%	8%	6%	9%	4%	8.1%
ROE after tax (%)	19%	11%	15%	1%	6%	7%	8%	2%	0%	14%	8.5%

* A positive is a cash tax refund

** Excluding the $5.2bn pretax ($3.92bn post tax) writedown on oil & LNG price plunge in 2020

Source: Company Accounts, CEF calculations

As per Section 5, we note Woodside has booked a $1,242m PRRT **refund** over the last decade. Rather than raising royalty revenues for the Federal Government, Woodside’s accounts stand in stark evidence of why a PRRT reform is a decade overdue.

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[58] AFR, “Stuart Robert’s accusation of Labor’s secret super raid backfires”, 10 June 2022

[59] AFR, “Exxon confident as ATO predicts ‘more’ settlements”, 25 July 2022

Figure 6.6 details the combined 2019/20 revenues of 20 of the largest fossil fuel multinationals operating in Australia. We grossed that up by 25% to reflect 3 years of growth to 2022/23, a very conservative assumption given the hyper-fossil fuel inflation evident. We assume a 50% discount to the pretax profit margins evidenced by four major Australian peers (BHP, RIO, Woodside and Santos), and then assume a 30% corporate tax. The outcome would be a $9.343m annual corporate tax receipt to the ATO, many multiples of the receipts actually delivered.

Figure 6.6: Top 20 Fossil Fuel Multinationals Operating in Australia, A$m

	A$m
Annual Revenue of 20 Fossil fuel Multinationals FY2020	113,373
Growth since FY2020	25%
Assumed Revenue FY2023	141,716
Pretax profit margin of sales (Discount to Oz peers)	50%
Pretax profit margin assumed	22%
Pretax profit	31,142
Corporate tax rate	30%
Corporate tax (A$m, pa)	9,343

Source: Tax Office Transparency data, CEF calculations

Section 6.1: Thin Capitalisation Loopholes

The ATO needs to seriously review and tighten the thin capitalisation rules, and in doing so review asset revaluations to ensure no undue inflation of reported subsidiary level shareholders equity, and compare Australian subsidiary gearing levels vs the parent group, and its Australian peers.

Adani Group

The ability of multinationals to operate in Australia with ridiculous financial structures entirely unsustainable or inconsistent with their parent entity profiles is illustrated with how the Adani Group of India has structured their coal extraction and port operations in Australia. Even before most of the capital investment had been undertaken to actually build the Carmichael coal mine in the Galilee Basin, Queensland, Adani Mining had $2.3bn of liabilities and negative $786m of shareholders equity as of March 2020 (Figure 6.7). Even absent the fossil fuel divestment movement efforts, this entity has never been a going concern absent ongoing foreign entity going concern guarantees. Yet the ability of the Adani Group to extract $1bn financing proposals by the then Federal government,[60] and seven year royalty holidays[61] and exemptions from new rehabilitation laws[62] from the Queensland government shows how captured our politicians are by tax haven based fossil fuel multinationals.

Adani Abbot Point Coal Terminal was acquired in 2010 as an exceptionally profitable going concern, reporting earnings before interest, tax and depreciation (EBITDA) of A$150-200m annually. However, ASIC reports for the five years to March 2017 the Adani Australia port entities paid no discernible tax in Australia, given massive financial leverage and the ballooning of interest costs – Figure 6.8.

Figure 6.7: Adani Mining Australia Is Structured with Massive Negative Equity

Adani Mining Pty Ltd			
A$m	30-Mar-20	31-Mar-19	31-Mar-18
Tangible Assets	76	97	98.8
Total Liabilities	2,303	1,979	1,768
Incl. Net Debt	2,103	1,806	1,606
Total Equity (A$m)	(786)	(507)	(234)

Source: ASIC 25 May 2020

Source: Company Accounts lodged with ASIC, CEF calculations

Figure 6.8: Adani Abbot Point Port Is Exceptionally Profitable, Before Financing

Year to 31 March (A$m)	2012/13	2013/14	2014/15	2015/16	2016/17	Five Years
Trust distribution				11.0	140.0	151
General & Admin expenses	-0.9	-0.4	-1.0	0.0	0.0	-2
Net finance costs incl. forex	-42.3	-147.1	-185.7	-52.5	-55.2	-483
Profit before tax	-43.2	-147.4	-186.6	-41.6	84.7	-334
Tax expense (credit)	0.0	0.0	0.0	0.0	0.0	0
Net profit after tax	**-43.2**	**-147.4**	**-186.6**	**-41.6**	**84.7**	**-334**

60 The Guardian, "John Hewson says $1bn loan to Adani the 'last thing' Coalition should be doing", 16 April 2017
61 The ABC, "Queensland Government signs deal to allow Adani to defer royalty payments for unspecified period", 1 Oct 2020
62 Lock the Gate, "Big holes left in rehab legislation due to become law this week", 31 October 2019

Source: Mundra Port Pty Ltd Accounts lodged with ASIC, CEF calculations

Chevron Australia Holdings

May 2018 saw Chevron pay the Australian Taxation Office $US654m under a partial settlement of its dispute with the tax office over intercompany loans and slashed the interest rate it charges its Australian subsidiary to a far more reasonable variable rate of 2.78% in 2018 (rising to 3.06% pa in 2021). Chevron lost an appeal in the Federal Court in 2017 over a $2.5 billion loan from a subsidiary in the US to Chevron Australia that charged an interest rate of 9% (vs a US$ borrowing cost of just 1.2%), clearly multiples of any arms-length deal between independent parties.[63] Chevron consolidated its borrowings into a single 20-year A$39.5bn loan (paid down to A$35.5bn / US$25.7bn as of December 2021).

Now that the Federal Court has supported the ATO in defining this aspect of related party transactions, CEF would contend that applying a realistic limit to what is an appropriate level of financial leverage by reference to an existing Australian peer group when it comes to tax deductibility of interest is another major loophole still being exploited today, giving multinationals an entirely unfair advantage against their Australian domestic peers. Figure 6.9 notes that for a commodity producer, Chevron Australia had a net debt to equity ratio of an exceptionally high 177% as at 31 December 2021 (and even higher 228% as at December 2020) – ten to twenty times their peers.

Woodside Energy's net debt to equity ratio was 19% as at 31 December 2021 (and 18% as at December 2020). BHP's net debt to equity ratio was 11% as at 31 December 2021 (and 21% as at December 2020). RIO's net debt to equity ratio was negative (net cash of $1.6bn) as at 31 December 2021 (and just 1% as at December 2020). This shows how charging the appropriate interest rate and using foreign trading hubs are just two of the myriad ways multinationals game the system against Australia. Limiting head office cost allocations, ensuring revenue from Australian operations is booked in Australia and putting peer financial gearing limits into place would all help, as would resourcing up the ATO and creating Australian director fiduciary responsibilities re tax into our company law.

Figure 6.9: Chevron Australia Holdings

Chevron Balance sheet	**CY2020**	**CY2021**
Current interest bearing liabilities	142	87
Noncurrent loans	30,641	25,738
Total interest bearing liabilities	30,783	25,826
Less Cash	186	83
Net Debt	30,596	25,743
Shareholders Funds	13,400	14,584
Debt to Equity - Chevron	228%	177%
Debt to Equity - Woodside	18%	19%
Debt to Equity - BHP	21%	11%
Debt to Equity - RIO	1%	-3%

[63] The West Australian, "Chevron pays $866m to ATO over Gorgon, Wheatstone loans dispute", 25 May 2018

Source: Chevron Australia Holdings CY2021 Accounts lodged with ASIC, CEF calculations

Jemena

The IEEFA report on Jemena by Bruce Robertson in May 2016 noted that the Singapore Government owned Singapore Power International (40%) and Chinese government owned State Grid Corp of China (60%) collectively own SGSP Australia Assets P/L – which trades as Jemena. Jemena in 2015 had a $800m convertible note charging itself 10.25% p.a., far above a commercial borrowing rate for a company such as Jemena. APA Group, a similar company operating pipelines, paid an interest rate of 4.97% p.a. in 2015.[64] [65]

We note by the 2021 financial accounts the interest rate on $5.6bn of debt securities ranged from 1.44-5.125% pa (the weighted average interest rate was 3.48%), a fraction of the 10.25% applied back in 2015.

We note that Jemena's year to 31 December 2021 accounts audit statement confirms "the Group currently being subject to an ATO transfer pricing audit in relation to its convertible instruments;".[66] A rather long process for this self-evident tax avoidance.

Section 6.2: Offshore Tax Haven 'Marketing' Hubs

July 2022 saw the ATO reach a settlement with Rio Tinto Ltd long standing disputes in relation to Rio's Singapore tax haven marketing hub, bringing Rio Tinto's total payment in relation to the disputes to $1bn.[67] Importantly, the dispute resolution ensures that full Australian corporate taxes will be paid by Rio Tinto going forward. The ATO has made good progress on reducing the proliferation of profit shifting and transfer mispricing using offshore tax havens like Singapore.

This follows ATO settlements by Google, BHP, Apple, ResMed, and Microsoft.

The ATO won a landmark $340m transfer pricing case in 2017 against Chevron (refer Section 6.1).[68]

August 2022 saw The Australian Competition and Consumer Commission (ACCC) detail how East Australian gas is being exported via Singapore using massive transfer pricing, stating that since the September quarter of 2020, the exporter:

> ***"has sold all its additional LNG cargoes to the related party for prices significantly below the international spot prices".***

The AFR named Shell as using related parties to enact transfer pricing for its QCLNG to avoid Australian corporate tax at exceptional rates, reporting the average price Shell QCLNG received for the cargoes was about $30 a gigajoule below the benchmark Asian spot prices that applied at the time. This should be made illegal, and penalties of many billions should be applied to this rampant corporate tax avoidance on windfall fossil fuel exports of Australia's public assets at a time of a domestic energy, climate and fiscal crisis.

August 2022 saw Assistant Treasury Minister Andrew Leigh commit the Albanese government to giving the ATO additional resources it needs to chase the "lurks and loopholes such as marketing hubs" used by multinationals.[69] CEF notes there is a clear sovereign risk to Australia of allowing foreign tax haven corporations to plunder Australia's public assets, particularly high emissions fossil fuel resources, given the enormous additional cost of extreme weather events becoming more extreme and more frequent as a result. It is beyond ludicrous that the AFFR should report that Shell should voluntarily pay a little more tax to sweep the issue under the carpet and hope it goes away. These loopholes need to be permanently eliminated.

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[64] IEEFA Australia, "Pipe Dream" 2016
[65] AFR, "Jemena funding arrangements raised with the ATO", 14 June 2016
[66] SGSP Australia Assets P/L, Financial Report for the year ended 31 December 2021
[67] Australian Tax Office, "ATO secures settlement of marketing hub tax dispute", July 2022
[68] AFR, "Chevron court case every company is watching", 23 March 2017
[69] AFR, "Labor escalates fight against 'tricky' offshore marketing hubs", 8 August 2022

Section 7: Federal Government Fossil Fuel Subsidies

Under former Prime Minister Scott Morrison, the government ran with the inane slogan of a "Gas Led Recovery". With gas prices up tenfold in the last decade, we have instead been hit with a "Gas Led Energy Crisis" in East Australia. Despite the climate crisis, the fossil fuel industry is clearly unable to operate without being constantly fed taxpayer subsidies, on top of most of the multinationals operating in Australia paying next to no corporate tax, and next to no PRRT.

Numerous studies have reviewed the ongoing subsidies to the fossil fuel industry.[70] We note here a few of the latest grants, capital loans and subsidies from the previous Federal government in the last fiscal year, totalling $6.6bn of taxpayer monies (Figure 7.1), mostly to private vested interests that pay no Australian corporate tax:

- The 2022 Federal budget provided $50m of new subsidies for fossil gas project proposals,[71] including $7.5m to Tamboran Resources for exploration of new fossil gas in the Beetaloo Basin, a shareholder value destroying firm lobbying against the Federal Government's new climate Act.[72]
- The Australian and Northern Territory Governments announced in April 2022 they had agreed to provide $872m in funding to accelerate gas production in the Beetaloo.[73]
- $78m over the forward estimates was allocated to the Australian Government's strategic fossil gas basin plans, covering the Beetaloo, North Bowen and Galilee Basins. [74]
- The Government provided $57m of taxpayer subsidies for the Latrobe Valley lignite gasification pilot, along with another $50m subsidy from the Victorian government. This brown hydrogen pilot is slated to produce 3 tonnes of brown hydrogen. [75] With the Federal Government, Victorian government, fossil fuel industry and their lobbyists all pretending this is a clean hydrogen project, there is of course no carbon capture and storage involved, and at 3 tonnes of brown hydrogen being exported to Japan, the hype is entirely greenwash, a climate joke on taxpayers.[76]
- The Federal Government in May 2022 under then Energy Minister Angus Taylor gave another $20m of taxpayer monies to the CarbonNet CCS proposal, which after a decade of government subsidies has delivered precisely zero carbon storage,[77] nor will it deliver any carbon storage this coming decade either, on the proponents own timetable.[78]
- The Federal Government in May 2022 under then Energy Minister Angus Taylor gave another $40m of taxpayer monies to ExxonMobil's South East Australia Carbon Capture and Storage Hubs proposal.[79]
- The Federal Government committed up to $1bn for the construction by Snowy Hydro of the Kurri Kurri gas power plant, including an associated gas pipeline.[80]
- The Federal Government allocated $30m for the private Port Kembla gas power station proposal.

[70] The Australia Institute, "Australian fossil fuel subsidies surge to $11.6 billion in 2021-22", 28 March 2022
[71] The Conversation, "The Morrison government's $50 million gas handout undermines climate targets and does nothing to improve energy security", April 1, 2022
[72] The Guardian, "Australia should abandon goal to limit global heating to 1.5C, says gas company eyeing Beetaloo Basin", 10 August 2022
[73] ABC, "NT and federal government sign off on funding deal to accelerate Beetaloo Basin gas production", 14 April 2022
[74] The Australia Institute, "Australian fossil fuel subsidies surge to $11.6 billion in 2021-22", 28 March 2022
[75] The Guardian, "Coal-based liquid hydrogen pivotal for green energy? The experts doubt it", 27 January 2022
[76] ABC, "Australia Institute disputes Victorian coal-to-hydrogen emissions claims", 19 May 2022
[77] Darren Chester, "BACKING CLEAN HYDROGEN AND CARBON CAPTURE IN GIPPSLAND", 9 May 2022
[78] CarbonNet CCS, "About the Project", accessed July 2022
[79] Darren Chester, "BACKING CLEAN HYDROGEN AND CARBON CAPTURE IN GIPPSLAND", 9 May 2022
[80] The Conversation, "Labor's plan to green the Kurri Kurri gas power plant makes no sense", 2 February 2022

- $173m for road construction for fracking in the Northern Territory.[81]
- NAIF provided a $175m loan for Pembroke Resources' Olive Downs Coking Coal Project, situated in the Bowen Basin 40km southeast of Moranbah, Queensland.[82]
- Export Finance Australia provided a US$350m loan to the ExxonMobil led PNG LNG.[83]
- The Federal Government allocated $500m to the Low Emissions Technology Commercialisation Fund ($500m) and $1.6bn over the coming decade for the Technology Investment Roadmap, with the objective to include Carbon Capture and Storage (CCS) and fossil hydrogen technologies.
- A $1.5bn loan to build a port and associated infrastructure for a new petrochemical complex in Middle Arm, Darwin, NT.[84] [85]

Figure 7.1: Australian Government Fossil Fuel Subsidies 2021/22

New gas projects	50
Australian and NT Govts funding to accelerate Beetaloo gas	872
Latrobe coal gasification	57
CarbonNET	20
Exxon CCS	40
Kurri Kurri	1,000
Port Kembla gas	30
Strategic gas basins	78
NT roads for fraccing	173
NAIF Olive Downs	175
EFA PNG LNG	479
LETC	500
TIR	1,600
NT Petrochemical plant port	1,500
Total	6,574

Source: CEF Calculations

[81] The Australia Institute, "Australian fossil fuel subsidies surge to $11.6 billion in 2021-22", 28 March 2022
[82] NAIF Press Release, "NAIF to provide $175 million to job creating Central Queensland coal mine", 1 July 2021
[83] EFA Press Release, "PNG LNG", July 2021
[84] ABC, "The Coalition is promising big things for a Darwin port ahead of the federal election, but the path ahead is unclear", 15 April 2022
[85] ABC, "Petrochemicals expert report warns of human health risks from planned Darwin Harbour precinct", 29 July 2022

Section 7.1: Capping the Diesel Fuel Rebate

For the last sixty years the Federal government has provided a diesel fuel tax exemption to the mining and agriculture industries. This subsidy goes primarily to the bulk commodities mining sector, principally for the iron ore and coal sub-sectors. This has consistently grown to a now A$7-9bn annual subsidy, representing one of the government's Top 20 spending programs, bigger than the government's spending on our army ($8bn pa) and twice our foreign aid spend ($4bn pa).

Far from being warranted as the heavy equipment is used offroad, the imported diesel has to be trucked by road to the remotest parts of Australia for use. It undermines our current account trade balance and weakens our energy security. At a time of fiscal crisis, now is the time to make the bulk commodities mining sector pay a higher share. This is the opposite of technology neutral approach – It is a direct tilting of the playing field to disincentivise electrification of the Australian mining equipment fleet to run on domestic zero emissions electricity, something which Net Zero Emissions commitments from all of our major mining houses makes inevitable.

Figure 7.2: Australian Federal Budget 2022 – With the Diesel Fuel Tax Credits a Top 20 program

A$bn	FY2020 a	FY2021 a	FY2022 e	FY2023 e
Total Taxation	447.5	473.9	512.5	508.4
Total Receipts	486.3	520.0	556.6	547.6
Total expenses	578.5	639.6	628.5	643.8
Deficit	(96.3)	(119.6)	(71.9)	(96.2)
Components				
Interest	16.9	18.5	19.8	21.2
Company tax	84.8	98.8	109.1	90.2
PRRT	1.1	0.9	1.7	2.4
Excise on petrol and diesel	17.8	18.7	16.7	18.9
Fuel Tax credits	7.3	6.9	7.7	9.3
Renewable energy	0.3	0.4	0.4	0.4

Source: Federal Government Budget papers

Fortescue Metals Group is one of the largest beneficiaries of this fossil fuel subsidy, so it is very positive to see this group call out for the phasing out entirely of this subsidy after 2025.[86]

CEF would suggest an immediate capping of the imported diesel fuel rebate to $50m pa per group, and then a progressive 18% annual reduction in this cap to $5m pa per group by FY2030. This would provide an immediate $4bn budget deficit reduction, with no impact on any firms except the 10 largest iron ore and coal mining majors in Australia. Given the exceptional profitability of both these groups, and the history of tax avoidance, this would be only a minor impost compared to the combined tax burden and hyperinflation in fossil fuel costs being felt by 22 million Australians.

[86] AFR, "Forrest says diesel rebate should go after 2025", 23 November 2021

Section 8: Global Comparatives

Indonesia

April 2022 saw Indonesian President Joko “Jokowi” Widodo sign Government Regulation No. 15/2022 on coal tariffs that imposes a progressive coal royalty rate ranging from 14 to 28%, depending on Indonesia’s benchmark coal price (HBA).[87] The previous royalty rate was a flat 13.5%. Indonesia’s corporate tax rate was also lifted to 25% in 2022 from 22% in 2021.

Coal India Ltd

One of the spurious claims made by coal lobbyists on the back of the move to a fair, progressive royalty regime in Queensland was that coal miners in Queensland pay the highest royalties and taxes in the world. We note that this is patently fact free. The largest coal mining firm in the world, Coal India Limited, pays a excise and royalty rate of a combined 34-35% of revenues, plus a corporate tax rate averaging 33% over FY2018-FY2021. Coal India Limited pays a total excise, royalty and corporate tax of 38.9-40.8% of revenues – Figure 8.1. Given Coal India Limited has prices set by the government of India at levels a tenth of the global seaborne market price as a service to the people of India who collectively own the coal resources, there is no need for a progressive royalty system. The higher royalty rates will only apply in abnormal periods of exceptional profitability, not every year as is evident in India.

Figure 8.1: Australian Federal Budget 2022 – With the Diesel Fuel Tax Credits a Top 20 program

Year to 31 March	**2018**	**2019**	**2022**	**2021**
Rs Million				
Gross Sales	1,265,440	1,406,030	1,349,791	1,267,861
Less Excise Duties *	(454,327)	(477,069)	(456,058)	(440,758)
Pretax profit	107,708	271,269	240,713	180,092
Corporate tax expense	(37,323)	(96,625)	(73,710)	(53,071)
Net Profit after tax	70,384	174,644	167,003	127,022
Excise / Sales	35.9%	33.9%	33.8%	34.8%
Corporate Tax / Sales	2.9%	6.9%	5.5%	4.2%
Excise & Corporate Tax / Sales	38.9%	40.8%	39.2%	38.9%
Corporate Tax / pretax profit	34.7%	35.6%	30.6%	29.5%
** Includes coal royalties, GST & coal cess (tax)*				

Source: Coal India Limited 2021 Annual Report, CEF calculations

[87] The Jakarta Post, “Indonesia raises coal royalty rates to boost revenue”, 19 April 2022

Section 9: The Failed Resource Superprofits Tax

May 2010 saw the then Government of Australia propose a Resource Super Profits Tax (RSPT) as one of the recommendations of the Henry Tax Review.[88] The RSPT was constituted to introduce a 40% tax on the 'super' profits made from 'the exploitation of Australia's non-renewable resources' i.e. all commodities. It was to replace crude oil excise and involve a refundable credit for royalties mining entities pay to the states and territories. While the RSPT is similar to the PRRT as they are both profit-based taxes levied at a rate of 40%, there were some key differences, particularly the ridiculous uplift rate for capex by oil & gas firms of ~18% annually.

This tax reform was much diminished to a narrower 22.5% Mineral Resources Rent Tax (MRRT) on coal and iron ore miners and effective from the 1 July 2012, only to be repealed in September 2014 given it had been compromised to the point of ineffectiveness.

It is worth noting that BHP made an average 73% profit (EBIT) margin on its near US$30bn annual West Australian iron ore sales in the last three years, generating an average pretax return on assets of 92% pa after paying an average 7.2% of state iron ore royalty. Rio Tinto, Hancock and Fortescue Metals Group all made similar superprofits close to ten times the average rate of return of average businesses.

Coal mining firms will make superprofits similar to iron in 2021/22, but over the last decade thermal coal miners like Whitehaven Coal have struggled to generate remotely acceptable returns, although the last three years have seen the firm deliver a 21% annual average return on assets. Coking coal miners like BHP Queensland Coal have generated an average 29% annual pretax return on assets in the last three years (after royalties). This strongly supports Queensland Treasurer Cameron Dick's highly progressive coal royalty proposal that shares the windfall gains of exceptional once in a decade type returns, but leaves the royalty rate unchanged for most years of normal pricing environments.

The political backlash of trying to introduce massive tax reform has scared Australian politics for the last decade.

Whilst the title of this report is " Export Carbon Windfall-profits Tax", this analysis is predicated on the basis that Prime Minister Albanese is determined to restore credibility and honesty to our Federal government, where election promises are delivered on. We support and welcome such standards.

As such, our recommendations are very focussed on a narrow group of vested interests that are gaming our political and fiscal system, that being the largely foreign owned, tax-haven based multinational operators of Australia's export fossil fuel sector.

For NSW to replicate Queensland's progressive coal royalty would only impact NSW's highest carbon coal exports, and only in exceptional years of war-profiteering and fossil fuel hyper-inflation. There would be zero impact on the domestic energy costs of NSW. Given the NSW government's $160bn of forecast state debt, and the need to protect those worse hit by the domestic fossil fuel induced energy crisis, now is the perfect time for political courage. Why should the people of NSW not benefit when Whitehaven's gross cash profits rise tenfold to $3bn in a single year?

Federal Treasurer Jim Chalmers has made it clear in his pre-election commitments he would move against multinationals who are paying nothing like their fair share of Australian corporate tax. This

[88] Parliament of Australia, "Taxation - Resource super profits tax"

will do nothing to scare off global capital, rather it would level the playing field so that Australian domestic corporates who almost all pay a very full 30% corporate tax here – BHP, Rio Tinto, Fortescue Metals and Woodside - are not operating at a competitive disadvantage.

The diesel fuel rebate is a huge subsidy going primarily to the bulk commodities mining sector, which is making windfall profits. After six decades of special interest subsidies in support of high emissions imported diesel use, windfall profits by this group makes this an ideal time to cap this subsidy at $50m annually (not one farmer or SME will be impacted in the slightest). Our mining majors have all committed to accelerated decarbonisation, and electrification of their heavy equipment is a perfect place to start. At a time when almost all Australians are paying record petrol prices that include significant excise duties, lets remove a special interest subsidy impeding these mining majors' delivery on their shareholder Net Zero Emissions commitments.

Having just acknowledged Australia's commitment of Net Zero Emissions and a 43% emissions reduction by 2030 it would be entirely consistent to incentivise new zero emissions investments (through NAIF, CEFC, ARENA and EFA) and phase out all fossil fuel subsidies that reward firms that undermine our climate ambitions.

A rapid review and reform of the PRRT at a time of windfall export LNG revenues and profits would again have no impact on the domestic market. This would be entirely consistent with Anthony Albanese's election promise of no new taxes. Fixing a failed tax that generates a tiny fraction of the promises made by the fossil gas industry representations is entirely reasonable. No one in finance would question the logic of addressing the windfall export profits of an entirely failed Federal royalty system.

Dr Ken Henry has suggested a new Federal East Coast Gas Levy that only applies to LNG exports. Given the billions in energy crisis costs being incurred by every East Coast resident and domestic business in 2022, this would immediately solve the domestic gas "shortfall" that the ACCC has highlighted. No need to trigger or review the entirely flawed ADGSM. This would again immediately fix the policy failure that sees the world's largest exporter of gas starving its domestic market. Let's have a new Gas Export Levy that biases the corporate tax avoiding multinational gas cartel's self-interest to ensure they serve the domestic market needs, and only export the surplus. This would immediately remove the need for the world's largest LNG exporter to be building entirely farcical LNG import terminals in Geelong and Port Kembla. And when some massively overpaid multinational CEOs who have paid precisely zero corporate tax in Australia in the last decade squeal sovereign risk, Resources Minister Madeleine King can remind them that they need a social licence to operate in Australia, and the combined fiscal-energy-climate crises concurrently smashing Australia would clearly flag they have none.[89] Treasurer Cameron Dick has also magnanimously volunteered to accept with good grace any reduction in Queensland LNG royalties, as it would provide a massive windfall domestic energy crisis relief to 22 million Australians by getting the gas cartel to return our own gas back for us to use ourselves.[90]

[89] AFR, "King readies gas trigger, as exporters lose 'social licence'", 1 August 2022
[90] AFR, "Qld would accept lower royalties to help east coast gas crisis", 3 August 2022

About Climate Energy Finance

Climate Energy Finance (CEF) conducts public interest research and analyses on global financial and economic issues related to the global energy transition, as well as the implications for the Australian economy, with a key focus on the threats and opportunities for Australian investments and exports.

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Tim Buckley, CEF's director of energy finance research, Australasia, has 30 years of financial market experience covering the Australian, Asian and global equity markets from both a buy and sell side perspective. Before founding CEF as a public interest thinktank in 2022, Tim founded the Australia and Asian arms of IEEFA in 2013 and worked as the Australasian Director on the global energy transition for eight years till the start of 2022. Prior to this, Tim was a top-rated Equity Research Analyst and has covered many sectors of the Australian economy over the previous 2 decades, including spending two years as Head of Equity Research in Singapore at Deutsche Bank covering Asian markets in 1996-1998. Tim was a Managing Director, Head of Equity Research at Citigroup for 17 years till 2008, then spent two years as Head of Institutional Equities at Shaw & Partners and subsequently in 2010-2013 was co-Managing Director of Arkx Investment Management P/L, a global listed clean energy investment company that was jointly owned by management and Westpac Banking Group. Tim started his career as a lecturer in Finance and Market Regulation at the University of Technology, Sydney before moving to Macquarie Group in 1988 to work in equity research. Tim has a Bachelor of Business majoring in Accounting and Finance from UTS Sydney (1985-87), the US SEC Series 7 (General Securities Representative Qualification Examination) and Series 24 (General Securities Principal Qualification Examination) qualifications.

Important Information