CLIMATE ENERGY FINANCE

Time to bring the baseball bat to gas cartel gouging Australians

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The fossil fuel industry is on track to export an all time record value approaching $200 billion of LNG and coking and thermal coal in 2022.

This is generating windfall war profits – driven by the Russian war on Ukraine impacting supply – for a select few companies, mostly private, foreign vested interests using tax havens for corporate tax avoidance as they exploit our sovereign resources.

Meanwhile, domestic gas prices are hurting residential and commercial and industrial customers alike. Gas prices also play a key role in setting wholesale electricity prices, and as the Australian Energy Regulator reports, gas plants have operated at a majority of the time in recent months when prices are greater than $5,000 per megawatt hour – 70 times 2021 averages.

While West Australia is largely protected from the gas cartel controlling East Australia's gas production and reserves thanks to an effective gas reservation put in place 15 years ago, the rest of us are smashed by hyperinflation of fossil fuel commodity prices. This is also driving general inflation and higher mortgage costs, with the RBA expected to inflict more pain pre-Xmas and the Australian Energy Regulator flagging yet more in 2023.

Where, in all this, is the fair return for Australians? Australia's fossil fuel royalty systems are decidedly generous to producers in times of unprecedentedly high prices – particularly the failed Petroleum Resources Rent Tax, designed to tax oil and gas profits, and NSW coal royalties – and ripe for reform.

The exception is in Queensland where Treasurer Cameron Dick has introduced a very progressive six-tier royalty scheme for coal exports, giving Queenslanders a 40% share when coal prices exceed $300 a tonne. Yet Queensland Resources Council lobbyists have mounted a $40m advertising blitz using the industry's $40bn of gross coal profits in 2022 to put political pressure on the Queensland government, and to threaten the NSW government of dire consequences if they act in the run up to the State election in March 2023.

This week, we expect the Federal Government to introduce a temporary domestic price cap of $8-12 per petajoule for East Coast gas supply, and put in place measures to ensure the gas cartel doesnt game the system and restrict supply further.

More production is not the solution, contrary to the spin peddled by the industry and its lobbyists. East Coast gas production has trebled in the last decade, and prices have skyrocketed. That is the definition of a total market failure, and drastic solutions are required to limit the damage this largely foreign industry is doing to Australia. The industry will still make supernormal windfall profits on 70% of their collective production, and a price of $8-12 petajoule is still double what applied, for example, prior to the concurrent commissioning of six LNG trains in the nation's gas heartland of Gladstone, Queensland, in 2015, and thus will give more than adequate returns on investments made.

As we argued in our recent report, action is needed at state and federal level. It is time the NSW government replicate Queensland's coal export royalty scheme. At current coal prices and exchange rates, the one off annual windfall for the people of NSW would be ~$25 billion, enough to pay off the entire NSW deficit and put $10bn into a regional transition fund to support fossil fuel communities to transform, diversify, and capitalise on the exceptional opportunities we have to be a renewable energy superpower.

And it is past time for the federal government to fast track the Treasury review of the multinational tax regime, and fix the PRRT. Federal government PRRT receipts peaked two decades back in 2000/01 at just $2.38 billion and have more than halved since to just $0.9 billion in 2020/21 despite massive volume increases. This tax must be reformed now to ensure the gas companies pay their fair share. Additionally, capping the diesel fuel rebate, which principally goes to the commodities sector, at $50 million per firm per annum would bring to an end an unconscionable 60 year special interest subsidy and generate $4-5 billion a year in federal government revenue. This could be used to protect those most impacted by the energy and climate crises the fossil fuel industry has inflicted on Australia.

No other industry has caused such significant economic hardship for 21 million Australians, all the while banking unprecedented profits. The free ride has to stop, and the interests of Australians must come first. As former chair of the ACCC Rod Sims has said, the government must now show the gas industry its baseball bat.