Fossil fuel exporters will reap $120 billion gross profit in 2022, as Australian consumers are crushed by energy hyperinflation

Tim Buckley, Director Climate Energy Finance

7 December 2022

We have done the math: multinational fossil fuel corporations will book a collective $120-140 billion gross profit in calendar year 2022. This is on export revenues of LNG, coking and thermal coal approaching $200 billion, almost triple the $70 billion in the 2021 financial year according to the Office of the Chief Economist.

In other words, as ordinary Australians and our domestic industrial sectors are crushed by hyperinflation of energy prices and a doubling of mortgage costs, plunging many into energy poverty and hardship, one sector of our economy is reaping windfall war-profits on an obscene scale on the back of Putin's invasion of Ukraine and associated sanctions against Russian fossil fuel exports.

And as the ATO Tax Transparency Initiative reveals, the vast majority of these energy multinationals have paid next to no corporate tax in Australia in the last eight years, even as coal and gas prices globally have risen five-to-tenfold in the last two years. By contrast, BHP paid $10 billion in corporate tax in financial year 2022. The current federal government multinational corporate tax inquiry should ensure foreign corporates operating in Australia pay their fair share.

Meanwhile, the Australian Energy Regulator has warned that the energy hyper-inflation induced pain to Australian consumers will only get worse in 2023, given delayed regulatory impact on higher retail electricity prices.

Unprecedented market failure requires unprecedented government intervention. This could be via a temporary LNG export-only levy on east coast exports, or a domestic gas price cap, as is apparently planned by the government, with reporting of a $13 per gigajoule cap ahead of meetings of state and federal energy ministers and national cabinet this week.

A levy or domestic price cap would prioritise domestic energy needs first, and allow the export of the surplus only – the opposite of what the gas cartel is currently doing, as it sends 70% of our gas overseas and sells it to us at hugely inflated prices, often above international prices. There is also a strong case for a fair and progressive coal royalties in NSW to match the system introduced by Queensland in June 2022, and ensure the people of the state enjoy some of the coal majors' windfall.

The scale of the fossil fuel industry's profiteering is breathtaking and should spur policymakers to urgent action. Origin Energy's 2022 accounts report that their Gladstone Australia Pacific LNG joint venture booked revenues of $9.36 billion in the 2022 financial year, double that of 2021. The gross profit in 2022 was $6.87 billion, a profit margin of a staggering 73%.

BHP's Queensland Coking Coal division reported 2022 revenues net of royalties of US$8.97 billion (up 250% year on year) and gross profit of US$6.33 billion, up tenfold on 2021. This a gross profit margin of a similarly staggering 71%.

Whitehaven Coal booked 2022 revenues of $4.92 billion, up 216% year on year. Gross profit rose 15-fold to $3.06 billion, despite its production volumes actually declining 3% year on year to 20 million tonnes. This represents a gross profit margin of 62%. And with thermal coal prices having risen eightfold on 2021, this company is on track for even bigger profits in 2023.

Where is the return for Australians on our sovereign resources? Regulatory capture of government policy by industry lobby groups – in many cases headed by ex-government ministers and staffers – has an iron grip at state and federal level.

This past week, Queensland Premier Annastacia Palaszczuk called for the resignation of Queensland Resources Council chief lobbyist Ian Macfarlane, a former resources minister in the Howard and Abbott governments, as the QRC mounts a relentless campaign against Queensland's tiered system, which now includes a 40% royalty rate when coal prices are over a whopping $300 a tonne. The extra receipts are earmarked to build health infrastructure in the state, including new hospitals, with the government announcing this week a coal royalty bonanza of $10.7 billion, double the forecast $5.4 billion in 2022-23. The new royalty regime will deliver $3 billion, with the remainder from the coal and gas price surge.

But it is fair to say the revolving door between our governments and peak groups lobbying for policies that line industry coffers and dud everyone else swings on both sides of the house. Ex ALP resources and energy minister Martin Ferguson has been the chief lobbyist for APPEA for the last decade, and NSW Minerals Council chief lobbyist is Stephen Galilee, the ex chief of staff of Mike Baird, former NSW Premier. This is undermining our democracy, as self-interested, rapacious fossil fuel multinationals are given free rein to exploit our sovereign resources for private gain while minimising return to the public.

The cost to Australians is serious. In NSW, coal export royalties are just 7-8%. A progressive royalty similar to that applied in Queensland at current coal export prices and exchange rates would generate close to $25 billion of royalties. This could be used to offset households' and businesses' soaring energy bills with rebates. It could provide subsidies to get off gas and install solar, and could go into a regional transition fund to support coal communities to transform and diversify.

Compared to the international experience, we lack ambition, to put it mildly, in ensuring our resources industry pays its way. The largest coal company in the world, Coal India, pays a flat excise rate of 33-35% annually.

Ultimately, the only solution is a rapid transition from expensive, volatile fossil fuels to cheap, clean renewables. The Albanese government has set an 82% renewables by 2030 target, underpinned by its $20 billion Rewiring the Nation power grid upgrade, which will be rolled out in conjunction with the states.

Building out new firmed renewable energy and modernising the grid infrastructure will trigger the decarbonisation of our economy and permanently drive Australian wholesale electricity prices down 60-70% from the 2022 levels.

It will also drive a reindustrialisation of our economy as we power our burgeoning world-leading critical minerals mining and refining export industry with clean renewable energy.

This is a multi-hundred billion export opportunity for Australia. But we need to get through the current energy crisis, and turn around the lost decade of opportunity to transition our economy that is the sorry legacy of the LNP’s energy policy failure.

Let’s hope, as a first step, the new government puts in place measures to ease the power price agony currently being inflicted by the fossil fuel industry on ordinary Australians.