FEDERAL BUDGET 2023/24

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KEY NEW SURPRISES

- A $4.2bn 2022/23 surplus is a massive fiscal balance improvement that carries forward to deliver a huge $300bn reduction in Australia’s Federal Government peak net debt over the forward estimates of $703bn by FY2027 (24.1% of GDP).

- $4bn in new funding to make Australia a renewable energy superpower, taking total funding to $40bn including the previously announced programs, but this is well below the cumulative $100bn of public capital Climate Energy Finance considers is required to crowd-in $200-300bn of private capital investment to position Australia as a global leader in energy transition and ensure our energy security and independence.

- $2bn green Hydrogen Headstart program.

- Confirmation of the Capacity Investment Scheme for firming renewable energy tenders (part of $89m funding), replacing the previous government’s CoalKeeper capacity mechanism and $1.3bn of funding for residential and SME electrification and energy efficiency.

- Disappointingly, zero effort to cap the $9bn pa imported diesel fuel rebate (bigger than all the renewables support!) or to ensure multinational corporations operating in Australia pay any corporate tax here.

This budget is a measured and sensible one, rebuilding in-house government capacity across the board (e.g. NATHERS building ratings, ACCU integrity, emissions measurement, replacing expensive
mercenary consultants with public servants) and rebuilding some equity back into our society by beginning to take steps toward looking after those most in need. It banks most additional tax receipts from a stronger economy, and produces a staggering $300bn reduction in net debt over the forecast period, showing the power of the Australian economy.

However, it also points to the massive fiscal capacity to have more ambition to catalyse the once in a century opportunity of the energy transformation for Australia and crowd in private capital at unprecedented scale. We are progressing in the right direction for sure, but not yet at the speed the opportunity offers and climate science demands.

**KEY OBSERVATIONS**

We acknowledge the expected $4.2bn 2022/23 budget surplus is a far more robust starting point in Australia’s fiscal position than was expected 6-12 months ago. This is notwithstanding the likely structural headwinds that will see an annual budget deficit resume, averaging $29bn pa over the forward estimates, as our terms of trade continue to normalise to long term rates reflecting commodity price declines from unprecedented levels over the last two years, and as inflation pressures and stage 3 tax cuts hit.

However, the 2023 budget also works to alleviate some of the inflationary pressures to make them a temporary rather than permanent uplift, which would have threatened Australian economic growth and sustained energy sector induced cost of living pressures. The rapid decline in fossil fuel commodity prices globally of late is a welcome relief to all Australians, even as it means the end to war-profiteering by fossil fuel exporters.

**KEY MEASURES**

> **PETROLEUM RESOURCES RENT TAX (PRRT)**
Gross profits of Australian LNG exporters exceeded a massive $63bn in 2022/23. In this context, the PRRT changes announced prior to the budget release are a serious case of fiscal policy underreach.

The marginal reforms to the PRRT, under which producers will be restricted to writing off 90% of assessable income as a tax deduction, are designed to pull forward an extra $600m annually over the forward estimates (a pull forward, not an increase in total expected PRRT receipts over the long term).

Relative to the estimated 4.4% PRRT royalty share of revenue in 2022/23, this represents just a tiny 1% increased share to the taxpayer. This looks very pedestrian relative to the LNG export industry’s windfall war-profiteering and oversized contribution to Australian domestic energy price hyperinflation.

By contrast, the Queensland government has levied a progressive royalty on coal exports – designed to deliver a return to the people of QLD off the back of surging prices – will deliver royalties of 12%-20%. Even iron exports attract a 7.5% royalty.

That the gas industry has been gifted a royalty (misnamed as a superprofits tax) discount relative to every other mining sector in Australia, as it reaps war profits off our sovereign public assets while returning a relative pittance to tax coffers, speaks to the undue influence of the gas cartel and its vocal lobbying on public policy, and the overdue need for donation reform.

For the Albanese government, Treasurer Jim Chalmers and Finance Minister Katie Gallagher, the far too modest PRRT reforms in this budget are a missed opportunity to deliver a substantial social dividend to the Australian people, limiting the government’s capacity to fund critically urgent social and energy transition programs, and undercutting the government’s claims to fiscal balance and responsibility.

We call on the government to refocus attention on multinational corporates operating in Australia to ensure they pay at least some corporate tax here, particularly those fossil fuel global giants who have paid nothing over the last decade, even as they use our finite public resources for private foreign gain. It is disappointing to see not even a reference to this in the 2023 budget.

At least this budget cans the residual funding from the previous government’s farcical gas-fired recovery subsidy for the Beetaloo exploration, but disappointingly this is redirected into a $7m subsidy for a Future Gas Strategy.

> NATIONAL NET ZERO AUTHORITY

The national Net Zero Authority is exactly what Australia needs to ensure the national interest is central to our energy and climate policy framework, to plan for the accelerating energy transition and work to establish domestic supply chains and areas of priority focus, including value-adding our critical minerals pre-export, ideally leveraging our world leading renewable energy resources to refine, process and manufacture so we can export “embodied decarbonisation”. It is good to see this Authority will also be mandated to support First Nations participation.
The government has confirmed $83m funding for this Net Zero Authority over 4 years, plus details on the previously announced $1.9 billion Powering the Regions Fund.

This includes the $400m Industrial Transformation Stream, the $600m Safeguard Transformation Stream for trade-exposed facilities in the Safeguard Mechanism and a $400m Critical Inputs to Clean Energy Industries Stream to support decarbonisation of sovereign manufacturing capability of critical inputs to the energy transformation, such as steel, cement, lime and aluminium.

The Net Zero Authority and associated measures will be vital in ensuring Australia’s workforce and communities are best placed to pivot from the fossil fuel focused industries from the past to the clean energy and critical minerals and value adding opportunities of the future.

Global supply chain diversity is a critical focus and Australia needs to both protect our own energy security, but also provide an alternative source of green energy supply for our key trade partners.

Climate Energy Finance had hoped for more substantive public finance support, like a $20bn national strategic interest funding allocation to the Future Fund to take strategic equity stakes in emerging domestic value-adding mining corporate leaders to help retain majority Australian ownership.

> ENERGY BILL RELIEF

The budget provides the previously agreed Federal government half of the $3bn in co-funded (with state governments) power price cost of living relief of $500 per household for the most vulnerable Australians hit by the surging hyperinflation of domestic fossil fuel energy prices over 2022 and 2023, made all the more urgent post the Reserve Bank of Australia’s 11th interest rate hike earlier this month. Nothing further was added to this.

> BUSINESS / HOUSEHOLD ELECTRIFICATION PACKAGE

The government has already announced a $314m tax relief Small Business Energy Incentive for investments in energy-efficient equipment of SME businesses via a tax deduction of up to $20,000.

Low-income households and renters should likewise benefit from a $1bn low-interest loan program to be administered by the Clean Energy Finance Corporation (CEFC) (in partnership with private banks) for home building energy efficiency upgrades, created to boost energy efficiency and insulate households from price shocks in energy markets.

A further $300m in this budget is being provided to fund energy performance upgrades on 60,000 social housing properties. And $37m is allocated to modernise our energy efficiency standards, including expanding the Nationwide House Energy Rating Scheme (NatHERS) to cover existing homes as well as new builds, creating an energy efficiency star rating system that will help Australians make the best choices when it comes to renting, purchasing, or renovating houses. This is a key priority CEF has been calling for.

> AUSTRALIA’S US INFLATION REDUCTION ACT (IRA) RESPONSE
The race is on for Australia to position itself as a renewables, critical minerals and metals and cleantech superpower, as global investment momentum in energy transition has been supercharged by President Biden’s trillion dollar US Inflation Reduction Act, and China leads across all facets of decarbonisation.

The October 2022 Budget review established significant public financing support for the energy transition, with the $20bn Rewiring the Nation Fund managed by the CEFC; the $3bn renewables, green metals and low emissions technologies funding included in the wider $15bn National Reconstruction Fund; the $1.9bn Powering the Regions Fund (key to assisting the implementation of the Safeguard Mechanism); the $525m Hydrogen Hubs; $146m Driving the Nation Fund; $83m First Nations Community Microgrids; and $188m community batteries fund each managed by ARENA.

CEF is pleased to see the Capacity Investment Scheme (CIS) announced in December 2022 confirmed in this budget (replacing CoalKeeper). With the inevitable acceleration of coal fired power plant closures, and the ongoing delays to the Snowy 2.0 pumped hydro storage project, this will play a critical role of crowding-in private capital for accelerated battery storage investments to complement the rapid renewable energy capacity buildout of the states-led Renewable Energy Zones. The budget papers do not directly disclose this $89m of funding, given it is commercially sensitive i.e. subject to public tenders, expected to commence late 2023.

This budget brings a new $2bn Hydrogen Headstart program to ensure large-scale domestic renewable hydrogen projects get started via competitive hydrogen production contracts. The budget provides $38m to establish the previously announced Guarantee of Origin scheme to track and verify emissions associated with hydrogen and low emissions products, as well as provide a mechanism to certify renewable electricity.

The skills and training sector will benefit from $3.7bn extra for the five-year National Skills Agreement, taking total federal spending to $12.8bn.

Green finance initiatives include the previously announced $8m over four years to issue sovereign green bonds, a $1.6m contribution to support Australian Sustainable Finance Institute (ASFI) develop its sustainable finance taxonomy, and $4.2m for ASIC for enforcement actions against greenwashing. $18m is provided to implement reforms to the operation of the Australian Carbon Credit Unit (ACCU) scheme.

This budget provides additional public capital support for the energy transition to help ensure Australia leverages our world leading renewable energy potential to value-add our globally significant critical minerals and green metal resources onshore pre-export.

This budget mostly reflects the previously announced $2bn Critical Minerals Facility administered by EFA, as well as an additional $57m to develop a Critical Minerals International Partnerships program to secure strategic partnerships internationally and $23m for policy and project facilitation.

Australia needs to focus on ensuring our exports include "embodied decarbonisation" – by powering processing, refining and manufacturing onshore with renewables. This will assist our trade partners in our mutual quest for global decarbonisation at the speed and scale the climate science demands.

Climate Energy Finance calls on the federal government to commit $100bn collective public capital support into energy transition initiatives – across the CEFC, Future Fund, Australian Renewable Energy Agency (ARENA), Export Finance Australia (EFA) and the Northern Australia
Infrastructure Facility (NAIF) – to both ensure the strategic national interest is promoted and to crowd-in upwards of $200-300bn of private capital from our world leading $3.4 trillion superannuation pool.

> EMISSIONS MONITORING & ENVIRONMENTAL PROTECTION

The Government also provides additional funding of $22m over 3 years from 2023–24 to maintain and enhance the capability of Australia’s National Greenhouse Accounts to deliver high-quality emissions data and track progress against Australia’s emissions reduction targets. Credible real time public disclosure of monitoring, verification and reporting (MRV) of key facilities is yet to be made government policy, but this enhanced reporting is at least a step towards data integrity.

The Government will provide $214m over 4 years to deliver the Nature Positive Plan, including $121m over 4 years to establish Environment Protection Australia to enforce environmental laws and restore confidence in Australia’s environmental protection system.