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To the Senate Select Committee Inquiry on the Taxation of Gas Resources

Response to questions

Dear committee members, we thank you for the opportunity to appear at the hearings. Please find below our responses to questions taken on notice.

1. ***Yesterday Anthony Albanese effectively ruled out a windfall tax levy on gas exports due to sensitivity of trading relationships and the role gas plays as well as fuel supply priorities for Australia, he also said "I understand that people would like to see more taxes paid, but we need to have an honest debate about it as well, and some of the debate has distorted some of the facts which are there," PM told The Daily Aus. Do you agree facts have been distorted throughout this debate and committee process? What is your reaction to the decision to not progress with a gas levy?***

The Prime Minister did not specify which facts he considered to have been distorted or by whom. We do note, however, the diversity of inquiry participants who testified in favour of additional gas taxation, relative to witnesses opposed to new impositions. The latter were almost exclusively from the gas industry or industry lobby groups and responding to narrower commercial interests.

The rationale offered by the Prime Minister is anticipated and addressed in our primary submission. Out of the three different policy instruments that the public debate has at times conflated – a windfall tax, a structural resource rent charge, and a climate-aligned fiscal reform – the Prime Minister's stated concerns engage most directly with the first instrument. They do not foreclose, and in our view should not be allowed to foreclose, consideration of the second and third instruments.

The pre-budget statements do not bind the decisions of the Committee, and the substantive questions the inquiry was established to consider remain unresolved on the merits. Any decision not to progress with a gas levy would represent another missed opportunity to make incremental progress on climate change mitigation, while ensuring Australians receive a fair return for the resource they collectively own.

2. ***Do you agree with the Government's Future Gas Strategy states: "Under all credible net zero scenarios, natural gas is needed through to 2050 and beyond"?***

The full statement in fact reads "*under all credible net zero scenarios, natural gas is needed through to 2050 and beyond, though its production and use will change over this period.*" This

framing obscures the reality of Paris-aligned pathways. It does not specify the volume of gas that might be "needed," what makes a scenario "credible," or what "needing" fossil gas means in practice.

The IEA's scenarios are widely regarded as credible, and its Net Zero Emissions scenario, cited in the Future Gas Strategy's Analytical Report, shows global gas demand falling by 78% between 2023 and 2050, alongside a projected halving of Australia's market share.

In our own Highest Possible Ambition (HPA) scenario, fossil gas production decreases by 92% between 2025 and 2050. More broadly, climate and energy scenarios show substantial reductions in total gas demand if the world is to meet the Paris Agreement goals, so the volume of natural gas "needed", rapidly declines with time, despite the claims of fossil gas industry members and supporters, who are logically promoting a sustained role for their product.

Referring only to use "changing over this period," given that Australia has signed up to the Paris Agreement goals and to that agreement's first Global Stocktake energy transition elements, provides a poor analytical frame. The absence of any reference to a rapidly declining trajectory, or to the merely residual role of gas by 2050, creates room for semantic games: in both a world where natural gas consumption doubles and one where it drops by 95%, one could still argue gas is technically "needed", because consumption has not reached zero.

Fossil gas is increasingly substitutable in all sectors in which it is currently used, often in a more cost-competitive manner. In the power sector most prominently, renewables are the cheapest form of new electricity generation in Australia and a growing cohort of other countries, even including system integration costs. The growing ability of battery storage, grid transmission, and demand management technologies to affordably firm renewables further undercuts arguments in favour of fossil gas being critical to the energy transition.

3. ***Have you assessed the long-term consequences for government revenue if such changes deter investment and reduce future gas supply, particularly once existing projects decline?***

If the world is to meet the Paris Agreement goals, then the fossil gas role in global energy systems will need to rapidly decline and be replaced by renewables, electrification, and in a number of applications, new fuels and feedstocks such as green ammonia or green hydrogen. This implies a natural decline in gas sector investment and associated government revenues, and a concurrent rise in investment and revenues tied to gas alternatives, led by renewables and clean energy technologies. This realisation invites government policies that can maximise public returns within a closing window for profitable exploitation of Australia's fossil fuel resources, including for the purpose of more quickly scaling up zero emission solutions.

4. ***What assessment have you made of the long-term impacts on employment, domestic energy supply and government services if gas investment and production decline as a result of your proposals?***

We do not think this is the correct question if Australia must decarbonise both its domestic energy system and its exports. The more important consideration is the broader implications for employment and economic activity arising from the decarbonisation process. Some sectors will be adversely affected in employment terms, but opportunities will arise for workers in those sectors to be redeployed into renewable energy development. Australian policy frameworks have long recognised that the composition of employment will change as external circumstances, markets, and technology evolve. One therefore needs to assess the larger picture before evaluating what structural adjustment will be needed within individual sectors.

There is an extensive literature showing that if Australia meets its climate goals and accelerates the shift away from fossil fuels through electrification and a renewables-based transition, significant new employment opportunities will be generated. These are likely to more than compensate numerically for losses from phasing out fossil fuels. This does not remove the need for detailed analysis of the adjustment process within sectors such as oil and gas, but it does indicate that substantial economic opportunities exist, which must be backed by appropriate policies to ensure the transition happens in a just and equitable manner.

Job growth from the build-out of Australia's renewables-powered grid, the potential decarbonisation of its industrial base, and new clean technology opportunities is significant enough that major workforce shortages are already projected. By comparison, as heard repeatedly during the hearings, the fossil gas industry is a relatively minor Australian employer. A larger return to Australia from its present gas exports would support any structural adjustment programs needed as part of the transition away from fossil fuels.

5. ***Do you accept that Norway's public returns are driven not only by taxation, but by direct state ownership and equity participation — and if so, are you advocating a change to taxation policy, ownership arrangements, or both?***

We have not argued for a Norwegian model, which is well known as being closely linked to the architecture of state ownership and equity participation mentioned in the question. Whether it could or should be applied in Australia is in any case not relevant to the broader question of changing taxation policy and increasing state engagement in the industry.

The larger question is how Australia gains a greater share of the resource rents from its gas resources. Different models exist internationally, but most involve government leadership, not necessarily ownership, and all generate substantially higher retained income than Australia's current policy arrangements deliver. We would defer to economic experts on how reform might be structured to achieve this.

What is relevant to our submission is the need for the Australian government to plan for an economic transition, as is already occurring in different regions following the exit of coal from the power sector. This would involve both domestic policy changes and diplomatic efforts to bring trading partners on board with a shift towards green goods and supply chains. Increased taxation of the gas industry, whether through a reformed resource rent regime or otherwise, would improve national capacity to enable and fund that transition.

6. ***For clarity for the Committee, is your policy objective a better-functioning gas industry that delivers higher public revenue, or a substantially smaller gas industry that is progressively phased out?***

To reiterate, following a Paris Agreement-aligned pathway, a critical factor in sustaining global living standards, necessarily implies a progressive phase-out of gas use and related investment, both in Australia and abroad. Given this, maximising public revenue from the time-limited exploitation of Australia's publicly owned natural resources is a matter of basic economic fairness, particularly given elevated gas industry profits, and would provide an important resource for accelerating the transition away from fossil fuels.

7. ***Do you accept that presenting these proposals as "tax reform" can obscure their intended structural impact on the size and role of Australia's gas industry, with implications for energy security, employment, regional economies and long-term government revenue?***

We do not accept this characterisation. It is natural that any fiscal change in any sector of the economy will carry wide-ranging consequences.

8. ***Would you support a similar windfall tax on renewable projects?***

Fossil fuel and renewable projects operate within vastly different socio-economic and environmental realities. It would be difficult to imagine a situation in which renewable project operators might experience windfall profits resembling those accrued by fossil fuel developers in response to geopolitical crises such as the present one. This in turn attests to the distinct energy security benefits associated with renewable energy, in that it allows Australian energy consumers to decouple from volatile fossil fuel markets.

Renewable projects also lack the climate-harming properties of fossil gas and, coupled with broader technological shifts, can substitute for fossil gas in many applications. However, under current conditions, Australia and its trading partners are incentivised to sustain high gas use at the expense of renewables, most significantly due to the ability of gas producers to externalise the climate costs of their products.

In addition, Australia is firmly expected to enjoy an international comparative advantage in renewables-based industrial activity, but realising this potential depends on the accelerated development of new renewable projects and associated infrastructure.

Based on these observations, it is logical that the Australian government would not erect any barriers to the acceleration of renewable projects and would, indeed, work to strengthen the conditions enabling more of them. This would help to meet climate goals, enhance energy security, and future-proof the national economy.

9. **Do you accept that renewable projects also rely on depreciation and capital cost recovery in the same way as gas projects?**

It is not immediately clear to us how this question relates to the terms of the inquiry. However, it is certainly true that renewable projects and renewables-enabled industrial projects are highly capital-intensive developments and sensitive to cost recovery considerations.

These concerns for renewable projects often exceed those of fossil fuel producers, which, aided by the uncosted nature of their climate impacts, have proven unwilling or unable to pivot their business models towards the production of clean energy (despite considerable historical pledges to do so). It is difficult to see how this situation could be considered an argument against further fiscal impositions on fossil fuel projects.

The enhanced ability to recoup capital costs through fossil fuel revenue streams, vis-à-vis renewable electricity, implies greater tolerance for taxation and royalties. Absent an effective fiscal regime, a disproportionate amount of economic value associated with fossil fuels necessarily accrues to producers. The economic value of renewables projects, by contrast, is inherently more evenly distributed.