Isaac Regional Council

Submission: Review of the Petroleum Resource Rent Tax

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Presented by

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Introduction

Isaac Regional Council (IRC) welcomes the opportunity to make a submission to the Federal Government's Review of the petroleum Resource Rent Tax (PRRT). This submission is made in the context of the challenges and benefits of Coal Seam Gas (CSG) operations and equitable distribution of royalties as they relate to public and private sector operations in the Isaac local government area (LGA).

Background

On 30 November 2016, the Australian Government announced a review into the operation of the Petroleum Resource Rent Tax (PRRT), crude oil excise and associated Commonwealth royalties to help better protect Australia's revenue base and ensure that oil and gas projects are paying the right amount of tax on their activities in Australia.

The review will advise the Government to what extent Commonwealth oil and gas taxes and royalties are operating as intended, having regard to the need to provide an equitable return to the Australian community from the extraction and sale of these resources without discouraging investment in exploration and development.

Terms of Reference

The Terms of Reference for the review, released by the Treasurer on 30 November 2016, are:

- The review will have regard to the need to provide an appropriate return to the community on Australia's finite oil and gas resources while supporting the development of those resources, including industry exploration, investment and growth.
- The review will examine the design and operation of the PRRT, crude oil excise and associated Commonwealth royalties that apply to the onshore and offshore oil and gas industry, having regard to economic conditions in the industry and trends over time.
- The review will also consider the impact of previous policy decisions on Commonwealth revenue.
- Drawing on international experience, the review will make recommendations to the Government on future tax, excise and royalty arrangements having regard to revenue adequacy, efficiency, equity, complexity, regulatory costs and the impact on the industry generally.
- The review will also examine other related matters.

Regional Overview

The Isaac LGA spans an area of approximately 58,000 km2 in Central Queensland, from the coast to the coalfields, located 1,000km north-west of Brisbane and 900km south of Cairns.

The region's estimated resident population is 24,795 although with an additional 9,455 resource sector workers housed in temporary accommodation at any one time the full-time equivalent population can fluctuate to an estimated 35,250[1].

Historically the Isaac economy has been driven by the resource sector which still contributes over 75% of the region's GRP of $5.3 billion[2]. The Isaac LGA hosts 23 operational coal mines which produced 62% of Queensland's total saleable coal in 2016[3]. CSG operations have an average annual production of 380mm3.[4] Agriculture is also an important industry with agricultural output in Isaac being valued at $226m. [5]

While the region predominately produces high grade metallurgical coal and is shielded from much of the uncertainty surrounding the future of thermal coal, regional leaders recognise the regional state and national economies cannot rely on a finite resource indefinitely, and have embarked on an exciting journey to strengthen and diversify the region's traditional economic base and ensure socio-economic sustainability for generations to come.

The Isaac LGA is strategically placed to capitalise on the economic opportunities associated with the rise of Asia and northern Australia Development initiatives. Consistently high solar radiation and proximity to existing transmission infrastructure and markets make Isaac an ideal location for solar farm development. The region also presents opportunities for biofuel production. The Isaac coast is identified as an emerging tourism precinct for development in the Mackay Destination Tourism Plan 2014. The coast also hosts commercial fishing and aquaculture operations.

General Comments

The resources sector is a major contributor to the economy in many of Isaac's communities and Council aims to maximise the benefit of a strong economy while achieving sustainable environmental and socio-economic outcomes. However, the recent construction boom led to a period of unprecedented growth in the region. While some of the growth pressures have eased as the mining boom moves into the less labour intensive production phase the Isaac Region still faces challenges in mitigating legacy impacts from poorly planned and conditioned industry development.

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[1] Queensland Government Statistician's Office, Bowen Basin Population Report 2016
[2] REMPLAN 2017
[3] DNRM 2016 production of saleable coal by individual mines 2015 , accessed at https://www.data.qld.gov.au/dataset/coal-industry-review-statistical-tables/resource/1b7fb643-c880-42bf-940b-fc3c582d239d
[4] DNRM 2017 Coal Seam Gas Production accessed at https://data.qld.gov.au/dataset/petroleum-gas-production-and-reserve-statistics/resource/63a8a6cc-7fb6-4040-b4e7-9d453b14d3ed 02/02/2017
[5] REMPLAN 2017

Beyond social impacts such as increase in fatigue related traffic crashes, gender imbalance and erosion of social cohesion, accelerated deterioration of Infrastructure and associated significant reduction of asset life are one such legacy issue. The Moranbah Landfill, for example, was reduced from an estimated 30 year lifespan to just three years. Significant water infrastructure augmentations have also been required.

Isaac Regional Council firmly believes it is unreasonable to expect regional and remote local governments to bear the brunt of the significant expenditure required to address these legacy issues. In terms of coal production, Western Australia has long had a 'Royalties for Regions' scheme designed to reinvest in the communities which support the resource sector and flow of royalties into the State and Federal Government coffers. Queensland has a similar scheme 'Building our Regions'.

The PRRT review presents Federal Government with a clear opportunity to ensure taxes and royalties from oil and gas operations 'provide an equitable return to the Australian community'[6] by including a similar Royalties for Regions type program to facilitate re-investment of royalties and taxes generated through petroleum and gas operations into the regional, rural and remote communities which largely host these operations.

Given Australia's domestic gas demand has increased only 10% while production has increased 35% it is expected to account, along with the US to account for 90% of new LNG exports on the global market. Overall, the global LNG market is set to increase by 50% between 2015 and 2020.[7] While LNG appears to be exempt from the PRRT, CSG as the raw input for LNG production remains subject to the PRRT and therefore represents an ongoing revenue source for state and federal government.

Industry observers suggest PRRT receipts are expected to grow substantially over the longer term as major projects reach the profitable phase of their investments with the Australian Government potentially receiving 40% of the profits for the life of the projects, potentially yielding billions of dollars a year in revenue.

Recommendations:

- **The PRRT Review Secretariat include the establishment of a 'Royalties for Regions' type scheme to facilitate reinvestment in the regional, rural and remote communities supporting gas and oil operations in its final recommendations**

- **The PRRT Review Committee further include recommendation regarding methodology for disbursement of funds to ensure a fair share of these royalties are indeed returned to host communities, rather than being diverted to metropolitan centres, as part of its final recommendations**

[6] Australian Government, Review of the Petroleum Resource Rent Tax, Issues note 2016

[7] http://www.forbes.com/sites/judeclemente/2016/01/31/the-u-s-and-australian-race-to-export-liquefied-natural-gas/#7104d62726a6