

History repeats on resources profits tax predictions

By Craig Emerson*

Rarely does a young academic get the chance to implement his or her doctoral dissertation as official government policy. Two months after the election of the Hawke Government I submitted my PhD thesis on minerals policy, the resource rent tax as its centrepiece. How prescient that more than a quarter of a century later the Rudd government is proposing a similar tax for a booming Australian mining industry.

But the findings of my PhD thesis, supervised by Professor Ross Garnaut, didn't spend 27 years gathering dust. Garnaut had taken a position as economic adviser to Prime Minister Bob Hawke and in late 1983 I was offered a position on the staff of Resources and Energy Minister Peter Walsh. My brief was to design and implement a resource rent tax for the Australian mining and petroleum industries.

I'd been appointed Postdoctoral Fellow at The Australian National University and the plan was for me to work on the RRT project for the government for up to two years and then return to the ANU to resume my climb up the academic ladder.

Upon learning of my appointment, Professor Heinz Arndt gave me the fatherly advice to beware the heavy drinking that was rumoured to be occurring regularly in the Non-Members' Bar at the Old Parliament House. Too late. My interview with Peter Walsh consisted of a fairly boozy dinner as his guest in the Non-Members' Dining Room and I think we may have later strayed into the Non-Members' Bar. At the end of the night Peter asked "when can you start"?

Within days of starting with Peter in January 1984 we were on the road to visit each state mining minister. States were applying their own different royalties to mineral production. Since the royalties were based on production, they added to extraction costs and resulted in minerals being left in the ground that otherwise would have been profitable to extract. But no-one noticed this waste so no-one really cared. And some states, especially Bjelke-Petersen's National Party Government, were adept at surreptitiously extracting a share of mining profits when prices were high through excessive rail freight rates imposed by the state-owned rail operators. These were very inefficient ways of extracting a share of mining profits but the states liked them, opposing our proposal for a Commonwealth resource rent tax.

However, the Commonwealth had jurisdiction over offshore oil and gas fields. We decided to concentrate on developing a resource rent tax for offshore oil and gas. At that time a production-related tax called the crude oil levy was being applied by the Commonwealth to offshore oil extraction. This levy was different for what was called 'new oil' and 'old oil' (though the oil was of the same geological age). Farcically, the distinction between 'new' and 'old' oil was based on when it was discovered. More recently-discovered oil bore lighter taxation than oil from fields discovered earlier. It was, ahem, a crude attempt to take account of the higher cost of extracting more recently-discovered oil from less accessible and less profitable fields in Bass Strait.

At the height of this absurdity, government officials came up with a third type of oil that was neither 'new' nor 'old'. No it wasn't called adolescent oil, but 'intermediate' oil.

Changing the crude oil levy rates to take account of the varying profitability of different oil fields was plain stupid. And the crude oil levy rates for the coming year were typically negotiated by ESSO and BHP representatives with officials of the Treasury and the Department of Resources and Energy.

Our resource rent tax proposal would put an end to all this annual horse trading and to the uncertainty created by frequent and unpredictable changes to crude oil levy rates. When profits were low, rent tax collections would be low and when profits were high the rent tax would collect a good share for the owners of the oil – the people of Australia. Furthermore, the rent tax would automatically recognise the cost of exploring for and developing further oil fields, which the crude oil levy could not do.

Despite these advantages the oil industry went ape. One major multinational oil company had a global policy of opposing profits-based taxes on the basis that they were anti-capitalist. The company was content to leave oil in the ground from production-related taxes since the resource they were wasting was not theirs but that of the people.

Many global oil companies protested publicly and loudly that a rent tax would destroy the Australian petroleum industry and stop exploration in its tracks. Some even took out full-page newspaper advertisements against the Hawke Government.

Predictably the Coalition joined in the hysteria, pledging to do all it could to block the passage of any profits-based tax for the petroleum industry.

Undaunted, the Hawke Government engaged in consultation with the industry. I had proposed to allow oil exploration costs in one offshore area to be offset against profits from existing operations in other areas – mainly Bass Strait at that time. The industry rejected the idea.

The Government pressed ahead, introducing a Petroleum Resource Rent Tax (PRRT) at the rate of 40 per cent. That was 27 years ago. The PRRT has stood the test of time and is supported by industry for its stability.

The only significant change was made in the late 1980s when the Bass Strait partners approached the Hawke Government and asked that it allow exploration costs in the Timor Sea to be offset against profits from Bass Strait – our original proposal.

We were able to get rid of the ridiculous crude oil levy and royalties as well. Under the PRRT, all project costs including the extra costs of extracting the last amounts of oil from reservoirs, are taken into account, avoiding the waste of resources associated with royalties and the crude oil levy.

Under the crude oil levy and royalties, the Bass Strait partners were planning to shut in several of the producing oil fields and not to develop further gas fields. Now, 27

years later and under the PRRT, there are still more than 20 years of oil production and 30 years of gas production remaining in Bass Strait.

Just recently the \$43 billion Gorgon and \$12 billion Pluto gas projects were given the go-ahead under the PRRT. The profits-based tax did not deter gas exploration or the development of these massive fields.

If the Hawke Government had accepted the position of industry and the Coalition parties, Australia would have had ever-higher crude oil levy rates, unpredictably changing royalty rates, strong disincentives to explore and even stronger disincentives to develop oil and gas reserves.

The Coalition pledged to abolish the PRRT if it won government, but left it in place, happily taking more than \$16 billion in revenue from it.

History is set to repeat. The Coalition has already described the Resource Super Profits Tax as 'absurd' and will vote against it in the Senate. Despite the industry's vigorous campaign against the PRRT, we consulted with them in finalising the design features of the tax. Those consultations produced a stable, predictable robust taxation regime conducive to high levels of petroleum exploration and development. Repeating that history for the mining industry has every prospect of producing the same good result for mining companies and the people of Australia.

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