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President Gerardine (Ged) Kearney

10 February 2017

Mr. Michael Callaghan
PRRT Review
The Treasury
Langston Crescent
PARKES ACT 2600
Email: PRRTReview@treasury.gov.au

Dear Mr Callaghan,

Re: Petroleum Resource Rent Tax Review

The Australian Council of Trade Unions (ACTU) welcomes the Treasurer's decision to establish the Petroleum Resource Rent Tax (PRRT) Review, to ensure that Australian's are receiving a fair return for their resources.

Australia is a prosperous country proudly founded on decent living standards and a fair go for all. However, these standards have been under threat in recent years, with inequality between Australians now the highest in 70 years. Unless we adapt and respond to the challenges and opportunities of our time- technological advances, heightened geopolitical uncertainty, climate change and an aging population - our living standards will continue to fall.

In order to redress these threats, Australia needs to learn from the missed opportunity of the mining boom, and receive a fair share of revenue from the upcoming LNG boom. Australia is poised to become the world's largest exporter of LNG, but this is expected to generate little government revenue for decades. The government must act swiftly to address this major problem before our resources are exploited without return.

Furthermore, Australia finds itself in the uniquely bizarre situation of being the world's largest gas exporter with the world's highest domestic gas prices. This is due to allowing foreign multinationals to pursue unrestricted gas exports and a failure of government to implement a domestic gas reservation policy. As a result, sky rocketing gas prices are putting pressure on households, threatening large manufacturing based businesses and putting 220,000 jobs at risk.

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The ACTU commends the submission of the *Tax Justice Network* to the Review. The ACTU believes there are significant issues with the current design of the PRRT and the loopholes and concessions must be addressed. The ACTU believes that a Commonwealth Royalty on offshore projects should be applied to petroleum products of at least 10%. This would generate a minimum additional $4-6 billion in revenue over the forward estimates.

The ACTU believes that the uplift rates which are conceded to petroleum projects should be dramatically reduced, going forward. Currently, petroleum projects are eligible for uplift rates of approximately 8% and 18%, for general expenditure and exploration respectively. These uplift rates are not granted to any other industry, and are remarkably generous. The uplift rates must be reduced and normalised.

Currently, there is a startling lack of transparency for much of the PRRT regime. The ATO should publicly disclose the different types of PRRT credits which are earned and carried forward on a project by project basis. The uplift rates have contributed to the industry accumulating $190 billion in PRRT credits, and this massive tax concession is likely to prevent any PRRT payments for years to come.

To further increase the transparency of the PRRT, the value and calculation method of wellhead gas should also be made public, and should be reevaluated to ensure the Australian people are paid a fair price for their natural resources. These prices are calculated behind closed-doors and there is no market to which to compare these.

While these changes are important, alone there is no guarantee they will ensure a fair return for the Australian people's resources. The ACTU believes that the most effective and fair solution is to immediately introduce a Commonwealth royalty of at least 10% on all current and future offshore oil and gas projects that are currently only subject to the PRRT.

This royalty represents a harmonisation in the tax treatment of oil and gas projects in Australia. Royalties are levied on all onshore oil and gas projects, and the royalty system represents a fair and basic principle that the Australian people are entitled to a price for their resources. Royalties should be paid on all oil and gas projects. Projections from the International Transport Workers' Federation (ITF) are that this royalty would generate a minimum of $4 - $6 billion over the forward estimate.

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This royalty is not a tax, as our natural resources are owned by the Australian people and a royalty is the price for the resource.

The PRRT is not delivering fair results. In 2014-15 PRRT payments fell by more the $500 million, despite significant growth in gas production. Multinational corporations Chevron, Shell, and BP made no PRRT payments; indeed Chevron and Exxon have not paid any corporate tax over the past two years despite earning billions. Any measures should be complemented by an increase in the resources for the ATO to combat aggressive tax avoidance measures. The ACTU commends the ATO's existing efforts in fighting aggressive tax avoidance by large multinationals.

We hope that this letter will lead to a positive outcome for the Australian people, while supporting investment and job creation in the oil and gas sector. The ACTU hopes the PRRT Review team will propose fair and reasonable reforms to this urgent issue.

Regards,

Ged Kearney
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