Inquiry into the Excise Legislation Amendment (Condensate) Bill 2008 and the Excise Tariff Amendment (Condensate) Bill 2008

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*This is a guest post from **Richard Griffiths**.*

Richard writes: This is a draft submission to the Inquiry into the Oil Excise Bills, which I would like to present to Oil Drum readers for feedback. Submissions to the inquiry can entered up to July 7. As you probably know the issue is whether/how the federal govt. should introduce excise on condensates produced from the NW Shelf off the WA coast.

http://www.aph.gov.au/Senate/committee/economics_ctte/excise_bills_08/index.htm

Long-Term Petroleum Decline

The requirement for taxation of oil and condensate production in Australian territory should be seen in the context of the long-term decline of total oil production from a peak in 2000 (ASPO-Australia 2006:2).

In this context, oil represents a unique natural windfall in the history of Australia. The opportunities presented now will never be repeated. For Australia, oil is not a 'once-in-a-lifetime' event, but a once-in-a-civilisation event. Given the huge amounts of money involved in the sale of Australian oil and oil products, it makes sense to consider the inter-generational equity of the present opportunity. How, if at all, will future generations of Australians benefit from the wealth produced in these few decades?

The crude oil excise regime established by the Whitlam government in the 1970s recognised the need to capture some of the benefits of oil production for the wider community, including future Australians. We are now experiencing some of the benefits of that decision. However, there is a strong case to be made for closing loopholes in the existing framework, so that this value capture can be effected efficiently and comprehensively. There is no strong argument for exemption other than the usual one - that no-one likes to be taxed.

Need for Taxation Reform

The proposed bill is certainly a step in the right direction, and is strongly supported. But it only underlines the point that there is now an urgent need to review and reform the whole taxation regime for petroleum products in Australia. This urgency is grounded in three key factors: 1) the ongoing and permanent decline in total Australian oil production; 2) the historically high and still rising price of oil on the world market; and 3) the contribution made by the consumption of oil to anthropogenic climate change. Recognition of these three factors is relatively new, and certainly postdates the establishment of the Australian oil taxation regime, which is clearly due for reform.

Opportunity for Future Fund Augmentation

A report by the UK's New Economics Foundation (Simms et al. 2006) argued that Britain had squandered its North Sea Oil windfall by failing to tax it effectively and by failing to set up any significant associated futures fund to hedge against the inevitable decline in production. Recent statistics on the UK net energy deficit and projections of a spiralling budget deficit as a result, bear out this critique (Earp 20008). A similar energy deficit is in store for Australia, and it is hard to see any Government policy to date that has taken this prospect seriously.

This is in marked contrast to the experience of Norway, which recognised early the unique position it was in and established an oil taxation regime to provide a future fund that now amounts to tens of thousands of dollars per head of the population. Similar funds have been established in Canada. In Australia, there is clear scope to augment the value of equivalent funds.

Impacts of the Bills

The Inquiry remit includes consideration of three specific issues which are commented on here.

1. the impact of the changes on retail prices of domestic gas and electricity in Western Australia, and any consequent effect on consumer prices;
2. the impact of the decision on the industry generally and on the exploration for petroleum products in Australia; and
3. the impact of the decision, and the decision-making process, on domestic and international investment confidence in Australia.

a) In considering changes in retail prices for fuels the Committee should not make the simple assumption that high energy prices are negative and to be avoided at all costs. Historically there has been a very tight coupling between energy use and economic performance. However, in an environment of peaking oil and gas production, to continue along this track is to condemn the economy to stagnation and long-term decline. The longstanding dilemma is how to get off the treadmill that ties economic growth to increased dependence on energy inputs. Historically low energy prices during the second half of the Twentieth Century sent industry the market signal that higher energy expenditure was the obvious route to economic expansion. In a changed energy situation, however, this signal is no longer accurate. As an alternative, higher energy prices are likely to indicate that energy reduction and energy efficiency are the rational future for economic development - in Australia and around the world. This efficiency approach has been termed 'winning the oil endgame' (Lovins et al. 2007) and is being widely adopted internationally.

b) In a situation of steeply rising petroleum prices worldwide, it is unlikely that increased excise will do much to dampen the profitability of oil and gas production. The real hindrance to exploration is not a perceived lack of future profit but the industry's physical capacity, which is in poor shape to meet the increased demands now being placed on it. Policy needs to find ways of promoting energy research, while becoming 'agnostic' regarding possible outcomes. This means that government support for oil exploration should not come at the expense of support for renewable energy research and development, especially since only the latter has a long term future.

c) The inclusion of an investment confidence angle in the Inquiry's remit implies a background assumption that increases in taxation are likely to reduce investment confidence. In a low-cost energy environment this may be the case. However, in the higher energy cost environment that we have now entered, investors are keen to identify opportunities to support 'oil-proof' industries and regions - those that can weather energy price spikes intact, and even derive competitive advantage from higher prices. WA, and Australia as a whole can take advantage of this by sending strong signals that it is serious about weaning itself off oil. Evidence that the Government is able and willing to use the taxation system to establish long-term economic sustainability will achieve this. The Pilbara Regional Strategy (Newman et al 2005) proposes that since dependence on diesel is currently one of the Pilbara Region's key weaknesses, it can turn this to an advantage by planning to become independent of diesel. Newman claims: 'A bold vision for the Pilbara can demonstrate that there is a long term future for the region from which so much of the wealth of the country is derived. It can turn an Achilles heel issue for the Pilbara into a source of hope for the world.' (Newman, 2006:12).

Recommendations

1) The Bills considered by the Inquiry should be adopted as an obvious and sensible measure, in keeping with the intent of the existing crude oil excise regime.

2) The Bills should be introduced not in isolation but as an early stage of a more comprehensive reform of the energy taxation regime. This would have regard to: the peaking of supply in Australia and globally, the extent to which higher fuel prices create a significantly changed environment for energy policy, and the need to factor climate change impacts into all energy taxation considerations.

3) Revenue from fossil fuels taxation should be used to support capacity building for a future of constrained energy supplyand to enable Australia to embark on a transition away from its current oil-dependence.

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