THE UNIVERSITY OF QUEENSLAND
AUSTRALIA

23 June 2020

Centre for Natural Gas

Committee Secretary
Economics and Governance Committee
Parliament House
George Street
Brisbane Qld 4000

egc@parliament.qld.gov.au

Dear Committee Secretary

I write with reference to the Queensland Parliament *Economics and Governance Committee's inquiry into the Royalty Legislation Amendment Bill 2020*.

By way of introduction, I have been the Director of The University of Queensland's Centre for Natural Gas[1] since 2013, leading multi-disciplinary research into technical, environmental, social, and economic and policy issues associated with the onshore natural gas sector (https://natural-gas.centre.uq.edu.au/). Prior to that I have over 25 years' international experience in the upstream oil and gas sector. I am currently also a non-Executive Director of National Energy Resources Australia (NERA, industry growth centre) and of the Australian Gas Industry Trust (AGIT). And, I am a reviewer for natural gas aspects of the International Energy Agency's, *World Energy Outlook*. The views expressed in this letter are not intended to represent the views of the members of the UQ Centre for Natural Gas nor the other entities mentioned above.

For further discussion of complex issues around royalties and investment, I would refer you to previous submissions made to the Productivity Commission's *Issues Paper for Resource Sector Regulation* 2019; and to the Queensland *Petroleum Royalty Review Consultation on Volume Model*, 2019, led by Mr Jay Weatherill. In these, I outlined key factors to be taken into account to address the State's goals (increase supply, downward pressure on prices, sustainable jobs, contribution to emission reduction).The latter in particular includes a literature review concluding that an over-riding, volume based, royalty model is not considered best practice in this area by organisations such as the World Bank. We are happy to provide copies of these documents on request.

There are significant economic headwinds for the Australian gas sector which have yet to fully play out. Supply and demand have changed materially since the times when consideration of this matter started. In essence, moving away from (rather than improving) a rent-based system deserves fundamental reconsideration. Furthermore, even if this resulted in a similar outcome after taking the changed environment into account, the pause would allow risks to State revenues, investment and jobs to be better appreciated.

The current outlook e.g. from the International Energy Agency (IEA) or the International Gas Union (IGU), is for LNG over-supply into the mid-2020s, but for sustained demand growth beyond that. The short term 12-18 month picture is highly volatile because of COVID. While an over-supply may have short-term benefits for domestic gas supply and price it is very important to avoid a myopic focus. There is a serious

[1] A disclosure of funding sources for the Centre is included at the end of this letter.

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risk of supply destruction as prices drop and remain below economic or even operating break-even. Sustaining investment and jobs over the next 5+ years (for supply delivered beyond that) is likely to be extremely challenging; and this in itself would not be sufficient for the stated, goals for the sector. *Growing* investment is where we need to be so that production can be sustained, replaced and reserves grown. We have had a serious dearth of long-range (exploration and appraisal) investment since 2015 and this needs to be enabled. We need to set an environment which encourages investment to avoid serious consequences for the medium and long-term gas outlook for prices and for Queensland jobs and revenues. Importantly, getting the investment environment right is also key for the ability of Australian natural gas to contribute maximally to global and domestic emissions reductions.

My single most important advice at this juncture, therefore, is to delay the implementation of this legislation. I recommend to spend the time, while the COVID headwinds play out, to respond to changes and design and test a more competitive system of royalties and associated resource settings. Such a system would aim for maximum *long-term* overall value to the people of Queensland (which is more than just smooth, short-term cash flow). The benefits for the State manifest as both (i) sustainable, high quality sector jobs; and, (ii) increased investment in reserves replacement and growth and *thereby* downward pressure on prices. But the benefits go beyond this and support energy access, affordability and climate action. Queensland's gas has a key Sustainable Development role to play at home and abroad.

There are, of course, challenges in developing a best-practice system, not least in cost and price transparency, but the answer is not to ignore these as "too hard" and revert to a simplistic approach because this risks working against both supply assurance and price goals. Challenges also arise because a best-practice system, aimed at long-term benefits on more than one dimension, will inherently not produce a smooth cash-flow - especially in the early days of developments. As previously advised (in the literature review), the way to manage this may be by aggregate revenue expectations and management across all resource commodities and operating a fund which uses differences in cycles to smooth expectations incomes.

Given the unprecedented place we find ourselves, taking the time to reflect and watch events unfold as we navigate COVID and other headwinds would seem to be the best course of action. We are more than happy to have help with further analysis and discussions on this critical issue for Queensland.

Yours sincerely

Prof Andrew Garnett
Director UQ Centre of Natural Gas (and UQ Carbon Capture and Storage program)
[redacted] +61 (0) [redacted]

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