

GST carve-up must reward states that develop resources

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As the Productivity Commission reviews the GST formula, it is encouraging that federal Treasurer Scott Morrison has already shown he understands one of the system's weaknesses.

Mr Morrison said last week that jurisdictions that make the most of their natural resources should be rewarded with a greater share of the GST, rather than penalised.

I couldn't agree more. It's high time the formula that is applied to the GST carve-up is reviewed and revised to encourage states to facilitate resource development.

The best way to get gas prices down and keep them down is to increase supply.

Only by rewarding states which do the hard work, which encourage responsible resource - development and bring the community along with them can we ensure we have appropriate access to cheap gas reserves that can be developed here in Australia.

In Western Australia, where Woodside is based, the state government actively supported the development of the North West Shelf Project, by building the Dampier to Bunbury pipeline and signing take-or-pay contracts.

The state government calculates this cost WA taxpayers \$8 billion.

History has shown it was a wise investment: the public benefits from the project have been significant and include thousands of jobs, billions of dollars in tax revenues and, importantly, energy security. The project has been the largest single supplier of domestic gas in WA.

This has helped WA avoid the energy crisis currently plaguing the eastern states. While manufacturers in the eastern states complain about gas shortages, in WA supplies are so plentiful that the public utility is selling off its surplus.

It's no accident that WA's energy security is assured. Successive state governments have made it a priority and worked with industry to ensure that domestic gas demands are met.

In other states, it's a different story as state government bans on onshore gas development, combined with rapid growth in the export market, have contributed to the current shortages.

The North West Shelf is an instructive case study in how a major nation-building project can be facilitated by the joint efforts of industry and government.

For Woodside, the North West Shelf Project proved seminal. As operator of the project, we have formed enduring relationships with customers in Australia and globally. We have paid billions of dollars in taxes and supported community groups through direct grants.

Yet when we began constructing a gas plant near Karratha in 1980, it was still a high-risk venture for our company. To an extent, those risks were mitigated by the commitment from the WA government.

The commonwealth also played a role by recognising the investment for tax purposes, but Western Australia's efforts were crucial.

As WA Treasurer Ben Wyatt says, the nation has benefited from the revenue, but it's the state that has largely funded it.

He underlined his point last week when he said that the net effect of the system was WA has received only \$1.6 billion in royalties from the North West Shelf while the other states have pocketed around \$14bn.

This is the outcome from the interaction of a royalties split between the commonwealth and state and a horizontal fiscal equalisation formula that reduces a state's GST share if they attract royalties from resource development.

The upshot is that the other states benefit disproportionately from the project compared to the state that actively supported and indeed enabled its development.

It is heartening that the federal government is aware of this anomaly.

As the Productivity Commission reviews the way GST revenues are distributed, Mr Morrison has questioned whether states that get on and facilitate development should be penalised for this.

Neither state nor federal governments on their own can ensure that appropriate resource projects are developed, but it is when they work together — and in concert with industry — that the nation's best interests can be served.

In the interests of energy security and economic development, it's high time for changes to the GST formula to reward states that encourage responsible development of Australia's resources.

At a time when politics is too often divisive and short-term, it is to be hoped that the states and the commonwealth can work together on a more reasonable approach.