SW Accountants & Advisors

Navigating Complexities

Energy & Resources

Take the lead

Key takeaways

- There is upside to whichever party wins the election with commodity **prices assumed to moderate by September 2022**:
  - **Iron ore** from US$134/t to US$55/t
  - **Metallurgical coal** from US$512/t to US$130/t
  - **Thermal coal** from US$320/t to US$60/t
  - **Oil** from US$114/barrel to US$100/barrel

  If iron ore, thermal coal and metallurgical coal prices remain at elevated levels until the end of the September 2022 before declining to March 2023 there would be an **increase in tax receipts of $29.5bn**.
- **Energy and Emissions Reduction** continues to receive funding with **$446.1m over five years** to support increased private sector investment in low emission technologies including hydrogen (including a Guarantee of Origin Scheme), investment in community microgrid projects in regional and rural Australia and gas infrastructure projects.
- Notwithstanding scientific warnings about the need to increase action to limit global warming, the Morrison government plans to **cut climate spending** if returned to power at the election. The budget papers show it is expected to **fall from $2bn next financial year to $1.9bn, $1.5bn and $1.3bn in the three years that follow**. The fall represents a 35% annual cut over four years. Much of this drop is likely to be a cut in the purchase of carbon credits as businesses are now permitted to sell on the private market. However these savings aren't redirected into further related measures.
- **Critical Minerals Strategy** continues to be funded with $200m over five years for **grants to assist Australian critical minerals producers** to advance projects through planning, design, pilot and demonstration phases and $50.5m over three years to establish a virtual Critical Minerals Research and Development Centre.
- The **decrease in fuel excise** is unlikely to significantly impact the Energy and Resources sector with the reduction not expected to significantly impact long term world-wide demand for oil and most fuel excise being rebated. There are measures for the Australian government to release crude oil stocks.
  Simplification measures are being proposed for smaller companies that collect excise, below $50m of turnover, to lodge and pay excise duty on a quarterly basis, removing licensing requirements and removing the double duty on petroleum based lubricants.
- While not specifically targeting energy and resources projects, there is continuing investment in **regional infrastructure with $21bn committed for transport, water and communications** infrastructure that should improve access to regional areas for the energy and resources sector and includes support for LNG and hydrogen production projects in Darwin, funding for low emissions steel production and low emissions manufacturing.
- An additional $2.8bn over five years from 2021-22 will be invested to upskill apprentices.
- The Commonwealth is also offering $3.7bn in additional funding for skills training for 800,000 places.

Our review

3/5 – Not a-mazing

While there were promising measures introduced in the budget, it was primarily for consumers rather than businesses. It will be interesting to see what will happen with the 2022/23 budget and the possible upside to tax receipts from iron ore and coal that have been outlined in the budget.

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