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PC report a missed opportunity to remove the GST penalty on resource development

The Productivity Commission's draft report into horizontal fiscal equalisation (HFE) confirms that the system for distributing GST revenue between states and territories penalises jurisdictions that develop natural resources such as gas.

APPEA Chief Executive Dr Malcolm Roberts said the report confirms that HFE means states that develop resources have their share of the GST pool reduced to 'equalise' revenue across jurisdictions.

"A state that develops its resources will benefit from royalties but will also lose some of that dividend, thanks to HFE. States that choose *not* to develop resources receive a greater share of the GST pool because of other states have grown their own revenue base," Dr Roberts said.

"Everyone agrees that there should be a fair system to ensure Australians receive the same level of services regardless of where they live. Everyone understands that delivering this outcome is complicated. However, people should be concerned when our system creates a perverse incentive which diminishes the rewards for supporting economic development."

The Commission warns that HFE has the potential to distort state government decisions about resource development. It is also open to question whether this situation is consistent with the aims of the HFE:

State governments should receive funding from the pool of goods and services tax revenue such that, after allowing for material factors affecting revenues and expenditures, each would have the fiscal capacity to provide services and the associated infrastructure at the same standard, ***if each made the same effort to raise revenue from its own sources*** and operated at the same level of efficiency. [italics added]

"When a state decides, for political reasons, to ban resource projects, it is not making "the same effort to raise revenue from its own sources". If a state plays a political game, it should not be rewarded with an increased share of GST revenue," Dr Roberts said.

"Victoria's political ban on onshore gas development is the most obvious example.

"The commission's draft report, while recognising the problem, offers no solutions.

"It recognises that the existing system shields governments from the fiscal consequences of poor decisions by increasing their shares of GST revenue.

"Unfortunately, the commission seems to have decided to put this problem into the 'too hard basket'.

"APPEA has recommended that all petroleum royalties be excluded from the calculation of state and territory revenues for GST distribution. This would provide a genuine financial incentive for jurisdictions to develop their own gas. More gas would ease supply pressures and help put downward pressure on prices.

"APPEA urges the commission, as it prepares its final Report to the Treasurer, to recommend a stronger incentive for states and territories to develop their own gas resources and, at the same time, discourage the imposition of non-evidence based restrictions and moratoriums."

APPEA has made a [submission](#) to the Productivity Commission's inquiry into horizontal fiscal equalisation.

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