



MELBOURNE LAW SCHOOL

Australia's first, Australia's global

# RESEARCH WORKSHOP ABSTRACT

BY PROFESSOR MICHAEL CROMMELIN AO (Melbourne Law School)

Monday, 20 April 2009

## **Oil and Gas Management and Revenues in Federations Australia**

This project was conceived by the Forum of Federations, a network of federal countries, practitioners and scholars interested in an exchange of ideas and experiences relating to federations. The upstream management of oil and gas resources (i.e., exploration and production) presents formidable challenges in many countries, especially in federations where two levels of government are usually engaged in the design and administration of management fiscal regimes.

The project comprised a comparative study of management and fiscal regimes in 12 federations: Argentina, Australia, Brazil, Canada, India, Malaysia, Mexico, Nigeria, Pakistan, Russia, United States of America, and Venezuela. Contributors were drawn from the fields of economics, law, political science and public administration.

The principal conclusions of the Australian study were as follows:

1. Onshore, state ownership of oil and gas resources has allowed the states to resist Commonwealth attempts to encroach on management of upstream operations and to derive a significant share of government revenue. However, onshore oil and gas resources represent a small fraction of the total.
2. Offshore, the stakes are higher and the Commonwealth prevails. Nevertheless, there has been a strong preference for intergovernmental cooperation, reflected initially in an agreement for joint administration of offshore oil and gas resources in 1967 and subsequently in the Offshore Constitutional Settlement in 1979.
3. The most important fiscal instrument now used to derive government revenue from upstream oil and gas operations is the Commonwealth Petroleum Resource Rent Tax. The introduction of the PRRT in 1987 began a move away from revenue sharing arrangements established by the 1967 agreement.
4. The unique fiscal equalization model devised by the Commonwealth Grants Commission takes full account of state oil and gas revenue (along with revenue derived from the exploitation of other natural resources). While controversial, this model continues to command strong political support.