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The Secretariat
Senate Standing Committees on Economics
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Parliament House
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Dear Secretariat

Submission on the Treasury Laws Amendment (2019 Petroleum Resource Rent Tax Reforms No. 1 Bill) [Provisions]

We appreciate the opportunity to make this submission to the Committee on the draft Treasury Laws Amendment (Petroleum Resource Rent Tax Reforms No. 1) Bill 2019. In particular, Santos' submission relates to the **retrospective removal of transferability for lawfully accrued undeducted onshore exploration expenditure for the period from 1 July 2012 to 30 June 2019**, which would occur if the Bill is passed without amendment. This is a consequence of removal of onshore projects from the PRRT regime.

Santos is one of very few independent Australian-listed companies in the oil and gas sector, focused on natural gas assets in the Cooper Basin, Northern Territory onshore and offshore, Western Australia offshore, Queensland and New South Wales onshore. The Santos portfolio is unique, with significant onshore assets as well as offshore assets. All these assets are currently subject to PRRT.

The removal of onshore projects from the PRRT regime is being contemplated by the government primarily because the large capital starting bases of the three Gladstone LNG projects when they were brought into the PRRT in 2012, mean they are unlikely to ever pay PRRT. Santos supports the removal of the PRRT from onshore projects on this basis.

However, Santos has also invested significantly in **onshore exploration** since 2012 in Queensland, New South Wales, South Australia and the Northern Territory. This investment has been beneficial for the Australian economy as a whole and has been required to ensure the Australian east coast domestic gas market remains adequately and affordably supplied. Last year Santos supplied about 13 per cent of total east coast domestic gas demand.

More than 53 per cent of Santos' **onshore exploration** expenditure since 2012 has been in the Cooper Basin where we have successfully arrested decline and production is actually growing again. Since 2012 Santos has also invested in onshore exploration for the new gas supply sources that will become the next "Cooper Basins", unlocking cleaner energy, wealth and opportunity for future generations of Australians. This includes:

- Seventeen per cent of our total onshore exploration expenditure to prove up the Narrabri Gas Project, which Santos has committed to develop solely for the east coast domestic gas market and which could supply up to half of NSW total gas demand.
- Ten per cent of our total onshore exploration expenditure in the frontier McArthur Basin in the Northern Territory.
- Seven per cent of our total onshore exploration expenditure in the Amadeus Basin in the Northern Territory.
- Thirteen per cent of our total onshore exploration expenditure in Queensland, which supplies both domestic and LNG markets.

Some of this onshore exploration expenditure (including augmentation) remains un-deducted and could be transferred to other profitable projects over time under current PRRT rules. However, the proposed expiration of this un-deducted expenditure on 30 June 2019 as a result of the removal of onshore projects from the PRRT would remove this ability and is, in our view, a retrospective change.

Equity research published by Credit Suisse on 5 November 2018 stated:

"Removing onshore projects from the PRRT regime, which limits companies' ability to offset onshore expenditure against offshore PRRT liabilities, would in theory impact those players who hold both material onshore and offshore interests, including potentially Shell, ConocoPhillips, Santos, Mitsui, CNOOC and PetroChina. But there is limited PRRT expected from LNG projects over the next ten years, so it is those players with offshore oil projects as well as onshore projects that may be more affected from this measure, suggesting **Santos may be disproportionately impacted**" (emphasis added).

On the other hand, those companies with significant offshore interests in Australia will retain the benefit of carrying forward and potentially transferring all their un-deducted offshore exploration expenditure accrued since 2012 while **Santos, an Australian-listed company, will be disadvantaged because our exploration expenditure during this period has been onshore rather than offshore** Australia.

Santos is an Australian-listed company that depends on foreign investment. One of the biggest concerns of foreign investors is retrospective regulation in Australia giving rise to sovereign risk.

The retrospective expiry of these deductions would also be inconsistent with the treatment of other proposed changes to the PRRT, for example augmentation, which has been grandfathered to ensure the changes are prospective and therefore sound from a taxation policy, equity and fiscal stability perspective.

Santos considers the principle of prospectivity should be applied consistently, including in the case of existing onshore transferable deductions.

While Santos supports the removal of onshore oil and gas projects from the PRRT from 1 July 2019, we request a limited transition period to allow taxpayers which have incurred **onshore exploration** expenditure from 1 July 2012 to 30 June 2019 the opportunity to transfer their lawfully accrued un-deducted expenditure. This would ensure the change is prospective rather than retrospective and

that those companies which invested in onshore exploration over this period are not disadvantaged compared with those which invested in offshore exploration.

Santos requests the Committee consider and support an amendment to address this issue. I would welcome the opportunity to discuss this matter further with Committee members.

Yours sincerely

Kevin Gallagher
Managing Director and Chief Executive Officer