HOUSE OF REPRESENTATIVES
STANDING COMMITTEE ON INDUSTRY, ~~SCIENCE~~ AND RESOURCES
22 JUL 2002
RECEIVED

House of Representatives Standing Committee on Industry and Resources
Submission No: 36
Date Received: 22 JULY 2002
Secretary:

Submission to the House of Representatives Standing Committee on Industry and Resources Inquiry into Resources Exploration Impediments

1. About ChevronTexaco

Worldwide, ChevronTexaco is the fourth largest publicly traded company in terms of oil and gas reserves, with some 11.5 billion barrels of oil and gas equivalent. It is the fourth largest producer, with daily production of 2.7 million barrels. Active in 180 countries with 22 refineries and more than 25,000 branded service stations, ChevronTexaco's interests extend beyond producing, refining and retail marketing to include chemicals and equity interests in 47 power projects worldwide.

With a continuous history in Australian extending back more than 50 years to its involvement in Rough Range, Australia's first flowing oil discovery, ChevronTexaco is the largest single holder of gas reserves in Australia. From its Australasian regional headquarters in Perth, ChevronTexaco Australia Pty Ltd operates its oil production on Barrow and Thevenard Islands, leads the joint ventures which hold the substantial gas reserves of the Greater Gorgon area in Western Australia and manages its interests in the A$12 billion North West Shelf Venture and the PNG to Queensland Gas Pipeline Project.

2. Stimulation of exploration activity via an Internationally Competitive Tax Regime

A critical part of the decision process in exploration is the evaluation of whether a successful outcome will yield a commercial development. The main influence that the Government can have on this is through the tax regime. Most potential new acreage of interest to ChevronTexaco will be in Petroleum Resource Rent Tax (PRRT) areas, are likely to be in deep water and are more likely to yield gas than oil.

LNG is a specific area of utilisation of gas reserves where the Government has previously made some commitments. In 2000, the LNG Action Agenda recognised with respect to taxation *"the need for arrangements which are internationally competitive and reflect the financial risk taken by companies in investing in LNG projects."* Since the time of this statement, the Business Tax Review was completed and the corporate tax rate lowered. More recently, the Industry Minister acted to limit depreciation lives for equipment used in oil and gas production. Although this move is very positive and helps to establish a level of certainty needed to pursue projects such as Gorgon, the overall tax mix is still not fully competitive with the regimes in which other LNG competitors such as RasGas (Qatar) and Tangguh (Indonesia) operate.
ChevronTexaco recommends that the Government specifically undertake to examine Australia's relative competitiveness with respect to our competitors in the energy export markets and propose actions to address deficiencies.

Petroleum Resource Rent Tax (PRRT)

A significant area in which large gas projects are disadvantaged by the tax regime is with respect to the uplift rate applied to general project expenditure. This rate was originally

designed to allow project proponents to earn a reasonable return on capital (15% plus long term bond rate, LTBR) but was reduced to 5% + LTBR in 1991 when exploration was made transferable across projects. This reduction had marginal effect on shallow oil projects but acted to disadvantage gas projects which tend to have more marginal economics and long construction times with subsequently long periods before capital recovery.
As advocated by the Australian Petroleum Production & Exploration Association (APPEA), ChevronTexaco recommends that, for gas projects, the carry forward rate for undeducted general project related expenditures be increased to 10% plus LTBR.

Also with respect to the PRRT regime, ChevronTexaco is concerned that the five year rule for carry forward exploration expenditure disadvantages gas project proponents because of the long lead times between exploration and commercialisation of gas reserves. The Gorgon Development is a case in point since the Gorgon-1 discovery well was drilled in 1981 and commercialisation is unlikely to be before 2007.
ChevronTexaco recommends that the Government advocates a change as proposed by APPEA whereby all undeducted exploration expenditure would be compounded at 15% + LTBR for five years prior to production licence application rather than just that which has been incurred during this time.

3. Public Provision of Geoscientific Data

Pre-competitive Research

In ChevronTexaco's view, it is critical that government continues to direct and increase funding of pre-competitive research towards uncovering new petroleum provinces and fairways within Australia. ChevronTexaco consider the services of agencies like Geoscience Australia vital to maintaining and sparking renewed interest in exploration investment in Australia.

ChevronTexaco relies heavily on these agencies to provide pre-competitive data packages of sufficient quality and depth, that allow us to make well-informed investment decisions beyond our existing areas of activity - investment decisions that will allow us to successfully compete globally for exploration funds. The continued attraction of exploration funds into Australia is dependent upon the supply of this pre-competitive information.
ChevronTexaco recommends that Government agencies be adequately resourced to deliver comprehensive pre-competitive technical products that encourage activity in new and existing provinces.

4. Post-Award Approval Processes

Interagency/Intergovernment Cooperation

ChevronTexaco supports the view put forward in APPEA's submission on this issue that there is significant scope for greater interagency/intergovernment cooperation and communication with regard to the coordination of approvals after a licence is awarded: This should lead to improved efficiencies such as earlier alignment and shortened approval times.

Immediately following a government decision to award a licence, ChevronTexaco sees real merit in APPEA's suggestion to assemble key stakeholders to map out schedules, timelines and key decision points. By doing this early, the project owner is provided with an immediate understanding of the critical path items needed to avoid any regulatory delays and hence project delays.
ChevronTexaco sees great merit in coordination within and between state agencies, and Commonwealth and State jurisdictions in order to map out the approvals processes and decision points to reduce duplication and unnecessary delays.

5. Conclusion

ChevronTexaco's current and future investment in Australia is strategic both for the Company and the Nation. Future investment is dependent on a number of factors. Some of these are within the purview of Government. It is crucial for the attraction of investment funds and Australia's future prosperity that the country be able to offer a globally competitive exploration regime.