Senate Economics Legislation Committee
ANSWERS TO QUESTIONS ON NOTICE
Industry, Tourism and Resources Portfolio
Budget Estimates 2006-2007, 29 May 2006

AGENCY/DEPARTMENT: DEPARTMENT OF INDUSTRY, TOURISM AND RESOURCES

TOPIC: NORTH WEST SHELF CONDENSATE EXCISE REVENUE

REFERENCE: HANSARD 29/05/06, PAGES E91 TO 92

QUESTION No.BI-41
(Hansard 29/05/06, p.E91)

Senator O'Brien asked about:

Will the beneficiaries of the revenue foregone for 2005-06 on condensate for the North West Shelf receive the benefit in equal proportions?

ANSWER

If condensate excise was applied to the North West Shelf project it would be levied equally on each production licensee, i.e. 16.67% each for Woodside Petroleum, BP Exploration, BHP Billiton, Shell Development, ChevronTexaco and MIMI.

QUESTION No.BI-42
(Hansard 29/05/06, pp.E91-92)

Senator O'Brien asked about:

Was the original decision to make condensate produced separately from a crude oil stream excise exempt made as an industry assistance measure to assist with the development of the North West Shelf? Can you provide information about the history of the deliberations in relation to this decision?

ANSWER

The decision to make condensate produced separately from a crude oil stream excise exempt was designed to encourage the development of gas deposits, including the North West Shelf and the Cooper Basin. This was in response to industry claims that gas projects were less profitable than crude oil projects such as Bass Strait.

History of Excise Exemption
Attempts to capture economic rent on behalf of the Australian community from Australian petroleum production have evolved since the 1970s *ad valorem* royalty, with the additional Commonwealth 'excise' levy, through to the introduction of the Petroleum Resource Rent Tax (PRRT) in 1987 and subsequent amendments. Past regimes applying to pre-1987 projects have been 'grandfathered' and the PRRT applies to all new offshore petroleum developments.

In 1975, a $A2 per barrel levy on all liquid forms of petroleum (i.e. crude oil, condensate and LPG) was added to the 10% petroleum royalty in order to capture some of the benefits of the increase in world oil price, most notably from the Bass Strait project. (Gas was considered a 'waste product' at this time.)

In 1977, condensate produced in a state or territory or inside the outer limits of the territorial sea of Australia (i.e. onshore) or marketed separately from a crude oil stream was made free of excise. This was to encourage the exploration and production from onshore and offshore predominantly gas fields which did not have the same profitability of the mainly crude oil producing Bass Strait. The *Background Report on Petroleum Production Taxation Australian* (Government Publishing Service 1990) stated that the condensate status was 'to encourage the development of petroleum resources in the Cooper Basin and North West Shelf', i.e. the mainly gas producing areas.

In June 1987 the Australian Government announced that the first 30 million barrels (or 4767.3 megalitres) of crude oil production from post-1987 offshore projects (clarified to mean 'fields') and all onshore fields would be exempt from excise. Excise was levied at increasing rates for increasing annual production and the rates were designed to encourage development of new fields. In addition, the Australian Government reaffirmed the excise exempt status of condensate when marketed separately from crude oil and the excise-free treatment of LPG produced from onshore fields, i.e. LPG and condensate onshore and offshore condensate marketed separately.

In 1995, the Australian Government modified the excise exemption on condensate which is produced separately from crude oil or marketed separately from crude oil. This measure prevented a small amount of crude oil, commingled for technical purposes, from making a large amount of condensate excisable. This change effectively exempts all condensate production from the excise regime.

The North West Shelf project is the only offshore petroleum development which remains on the pre-1989 royalty plus crude oil excise regime, all other offshore projects are subject to the profit-based PRRT, following the inclusion of the Bass Strait project into the modern regime in 1990. Three oil fields in the predominantly gas producing North West Shelf project area are currently subject to excise, the Wanaea and Cossack fields are levied at 'new' oil rates and the Legendre field is levied at 'intermediate' rates. Onshore petroleum projects are subject to State royalty of 10% plus Commonwealth crude oil excise, however no oil fields onshore currently produce enough annually to attract the excise.

On 15 August 2001, the then Minister for Industry, Tourism and Resources announced that streamlining of the 'old' and 'new' oil excise provisions 'will significantly streamline current legislation, reduce certain crude oil rates and encourage oil exploration and production both onshore and offshore. … A secondary effect could be increased gas discoveries arising from oil exploration'. The Australian Petroleum Production and Exploration Association stated, 'There is a potential stimulus to the industry in revisiting and reworking some onshore old oilfields', specifically fields in the Cooper Basin being benefited.

Condensate Exemption
In the evolution of resources policy taxation condensate has been made exempt from excise to ensure the community continued to receive a fair share of the price received by industry, in managing the changing issues overseas and to enable Australia's international competitiveness to adapt to continually changing circumstances. When the series of excise exemptions were introduced in 1987 (one of which was for condensate), it was noted that '[Higher] project collections reflect the effect of assumed higher crude oil prices, partly offset by an anticipated decline in crude oil production.'

Condensate is not exempt from the PRRT, which was introduced in 1987 as a major rationalisation of Australia's petroleum production taxation arrangements and which covers all new developments since 1987 in Australia's offshore petroleum jurisdiction. Condensate is not exempt from royalty (e.g. from the North West Shelf), nor from any profit-based or *ad valorem* regime in which price gained is an overriding factor in contributing to the taxation rate faced by the particular company.

QUESTION No.BI-43
(Hansard 29/05/06, p.E92)

Senator O'Brien asked about:

Does the Government have a view on the continuing appropriateness of the condensate excise exemption in today's high oil price environment?

ANSWER

The profit based PRRT responds to prices without the necessity for legislative amendment, as the government receives 40 per cent of a project's profits after allowing deductions for costs. The royalty and excise regimes onshore and on the offshore North West Shelf project likewise respond to higher prices as the royalty and excise are applied to the value of the petroleum at the point of extraction, however it does not respond to the profitability of a project as a whole. To increase and decrease the royalty and excise rates in response to international price movements would require constant legislative amendments which would increase the sovereign risk for any potential investor in the industry in Australia. While the movement in the international price of crude oil is not necessarily paralleled by the price for domestic gas, LPG or LNG, it is apparent from Budget history that petroleum production taxation revenue does parallel the fluctuations in crude oil prices in the long term. As mentioned in response to question BI-42, the exemption from excise of condensate was made in response to the differences in profitability of oil and gas projects.