

**Senate Standing Committee on Economics**

**ANSWERS TO QUESTIONS ON NOTICE**

**Treasury Portfolio**

Budget Estimates 3-5 June 2008

**Question: bet 24**

**Topic: North West Shelf Production**

**Hansard Page: Written**

**Senator Cormann asked:**

1. Can you please clarify the operation of the 30 million barrel allowance for condensate production sources from field that were in operation prior to 1 July 1987?
2. Will all North West Shelf production be eligible for the 30 million barrel allowance for condensate production?
3. If the answer is yes, how will Treasury (or the ATO) apply that 30 million barrel allowance to North West Shelf project fields in operation prior to 1 July 1987?
4. Is Treasury aware that there is an additional project other than the North West Shelf project, located offshore and subject to Commonwealth excise and royalties?
5. Referring to the answer by Mr Flavel at Senate Estimates on 3 June 2008 that the proposed legislation "lays out the administrative framework" which will apply, I ask: Does the legislation lay out the administrative framework or does it merely provide the basis upon which an excise liability is measured? Isn't the administration and compliance framework determined by the ATO?
6. Referring to the answer by Mr Flavel at Senate Estimates on 3 June 2008 that the "taxpayers involved will be the same as those who are currently paying crude oil excise", isn't it true to say that more taxpayers are now likely to be involved than under the current crude oil excise regime?
7. Are there onshore condensate operations that do not produce crude oil that will now be required to comply with the excise regime, even though they may not ultimately incur an excise liability?
8. Do condensate producers have an exemption from measurement under the excise regime or are they simply not required to measure production as the regime does not apply to them?
9. Are onshore condensate producers in a practical position to provide the information required to comply with aspects of the excise legislation for the assessment of the 30 million barrel field exemption?
10. What are the reporting requirements to the ATO by each condensate producer, whether they produce more than 30 million barrels of condensate or not.
11. I refer to Mr Flavel's evidence that on 3 June 2008 that: "No. Again, both the combination of measurement occurring for the purposes of the offshore petroleum royalty and the fact that the same taxpayers are involved in all the administrative arrangements insofar as their crude oil excise obligations are

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concerned, I am not aware of any reason that the administrative arrangements surrounding the measure will not work as intended"

12. Is Treasury aware that producers account for production for royalty purposes on a different basis as is required for excise purposes?
13. Is Treasury aware that royalty is assessed on a licence area basis, not a field basis?
14. Is Treasury aware that crude oil excise currently only applies to licences where crude oil is produced, and that for licence areas where crude oil is not produced, producers may not be required as part of their production licence to monitor historical and actual production on the same basis as is required under the excise regime?

#### Answer:

1. Under the Excise Tariff Amendment (Condensate) Bill 2008, where a petroleum field is located offshore and first produced condensate prior to 1 July 1987, production of condensate from this field either pre or post 1 July 1987 does not benefit from the 4767.3 megalitres (or 30 million barrels) exemption. Under the *Excise Tariff Act 1921*, the same arrangements apply to a petroleum field that is located offshore and which produced stabilised crude petroleum prior to 1 July 1987.

The above arrangements are the same for a petroleum field located onshore.

There has been no change in policy in respect of how the 4767.3 megalitres (or 30 million barrels) exemption operates, other than it is now proposed to include production of condensate.

2. Production of crude oil or condensate from the North West Shelf will be covered by either the Excise system or the *Petroleum Revenue Act 1985*.

See answer to question 1 for the operation of the 30 million barrel exemption for a field covered by excise arrangements.

If the relevant petroleum field falls under the *Petroleum Revenue Act 1985*, then the 30 million barrel exemption is not applicable. Under the *Petroleum Revenue Act 1985*, where a revenue sharing agreement with the Australian Government is in place in respect of royalties payable, duties of excise otherwise payable under the *Excise Tariff Act 1921* may be waived. The *Petroleum Revenue Act 1985* applies to Barrow Island in Western Australia.

3. See answer to questions 1 and 2.

4. See answer to question 2.

5. The Excise Tariff Amendment (Condensate) Bill 2008 imposes the Crude Oil Excise on production of condensate. It does this by amending the *Excise Tariff Act 1921*. The Excise legislation Amendment (Condensate) Bill 2008 makes a number of

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consequential amendments to the *Excise Act 1901*, the *Petroleum Excise (Prices) Act 1987*, and the *Petroleum Revenue Act 1985* to facilitate this policy change. The Crude Oil Excise regime is administrated by the ATO within the confines of the *Excise Act 1901*, the *Excise Tariff Act 1921*, and the *Petroleum Excise (Prices) Act 1987*.

6. The statement was referring to taxpayers currently paying the Crude Oil Excise and the expectation that these same taxpayers would be paying excise in respect of condensate production.
7. It is possible that some additional taxpayers will be required to comply with the excise regime as a result of the measure. While they may not incur an excise liability they will need to obtain an excise license.
8. Producers in excess of the 4767.3 megalitre (30 million barrel) threshold will be required to measure production as their production is excisable. The Australian Taxation Office has indicated that for producers whose production is less than the 4767.3 megalitre (30 million barrel) threshold, production figures may be requested from time to time.
9. It would be expected that all producers of condensate will already be measuring condensate production in some form as part of normal business activities. To date, no condensate producers have sought meetings with Treasury or made representations about the compliance aspects of the proposed arrangements.
10. See answer to question 8.
11. No question is asked.
12. Yes.
13. Yes.
14. Yes.