

Senate Standing Committee on Economics
ANSWERS TO QUESTIONS ON NOTICE
Resources, Energy and Tourism Portfolio
Budget Senate Estimates
1 June 2010

Question: **BR42**
Topic: **Resource Super Profit Tax**
Proof Hansard Page: **Written**

Senator Eggleston asked:

1. Will the Department or the Minister be recommending the increase of the petroleum resource rent tax to match that of the proposed Resource Super Profit Tax?

Answer¹:

The Resource Super Profit Tax has been replaced with a Minerals Resource Rent Tax for iron ore and coal and a Petroleum Resource Rent Tax for all onshore and offshore oil and gas including coal seam gas.

2. Are there any plans to remove the exemption of the North West Shelf from the petroleum resource rent tax?

Answer:

On 2 July 2010 the Australian Government announced that the Petroleum Resource Rent Tax will be extended to include all onshore oil and gas projects, including the North West Shelf.

3. How does the regulatory environment for offshore drilling in Australia compare to the United States?

Answer:

The United States and the Australian offshore regimes are not directly comparable given the relative constitutional arrangements and the scale and level of activity of the offshore petroleum industry in each country.

Further information can be found in answer **BR44**.

¹ Unless otherwise specified, answers are current as at 30 June 2010.

4. What advice on or input to the design of the RSPT was provided by RET Department?

Answer:

From 29 March 2010, three officers of the Department of Resources, Energy and Tourism were seconded to Treasury to work on the response to the Henry Tax review.

5. Was the Department formally requested by Treasury to provide advice or comments for inclusion in the Cabinet submission that proposed the introduction of the RSPT?

Answer:

The Department of Resources, Energy and Tourism's contribution to the final policy development was through the three officers that were seconded to Treasury.

6. When was the Department officially briefed on the Government's decision on the RSPT? Is it correct that the Department was only briefed on Saturday, 1 May – 1 day before the Government's announcement?

Answer:

Department of Resources, Energy and Tourism officers were briefed on the policy decision, on 1 May 2010.

7. The RSPT applies to existing projects (apart from those currently covered by the PRRT). Does this mean the RSPT is retrospective?

Answer:

The Resource Super Profit Tax has been replaced with a Minerals Resource Rent Tax for iron ore and coal and a Petroleum Resource Rent Tax for all onshore and offshore oil and gas including coal seam gas.

8. Has the Department provided advice to the Government as to the adverse impact of a retrospective tax on investor perception of new investment in Australia?

Answer:

Under Paragraph 2.25 of the Government guidelines for official witnesses before Parliamentary committees and related matters – November 2009 state that the role of an official witness is not to comment on policy.

9. Does the Department agree with the KPMG Econtech report when it concludes that failure to fully grandfather existing projects brings existing projects under the RSPT and is therefore a sovereign risk event?

Answer:

Under Paragraph 2.25 of the Government guidelines for official witnesses before Parliamentary committees and related matters – November 2009 state that the role of an official witness is not to comment on policy.

10. How will the 40% loss guarantee provision of the RSPT change the manner in which banks and other financial institutions structure lending arrangements for resource projects?

Answer:

The Resource Super Profit Tax has been replaced with a Minerals Resource Rent Tax for iron ore and coal and a Petroleum Resource Rent Tax for all onshore and offshore oil and gas including coal seam gas.

11. Did Treasury test the claimed impact of the 40% loss guarantee provision of the RSPT on the approach banks and other financial institutions will take when structuring lending arrangements for resource projects?

Answer:

The Resource Super Profit Tax has been replaced with a Minerals Resource Rent Tax for iron ore and coal and a Petroleum Resource Rent Tax for all onshore and offshore oil and gas including coal seam gas.

12. The government announced new taxation measures said to assist mineral exploration, presumably in lieu of the previously promised Flow Through Share Scheme? How will such measures assist junior explorers needing up-front capital injections and for whom taxation measures are largely irrelevant?

Answer:

Exploration incentives will be considered by the Policy Transition Group.

13. The Hawke-Keating Government specifically acknowledged the adverse impact of the PRRT on Victorian domestic gas prices and provided substantial cash offsets as a result. Why then can the Government flatly deny that its proposed RSPT cannot have any impact on today's coal and/or gas powered generation costs?

Answer:

The Resource Super Profit Tax has been replaced with a Minerals Resource Rent Tax for iron ore and coal and a Petroleum Resource Rent Tax for all onshore and offshore oil and gas including coal seam gas.

14. “We are calling for consideration of a higher PRRT threshold rate” - If now-Minister Ferguson when in Opposition could make this statement, what has changed to make a threshold rate 5% lower than that applicable to the PRRT is adequate under the RSPT just a few years later?

Answer:

The Resource Super Profit Tax has been replaced with a Minerals Resource Rent Tax for iron ore and coal and a Petroleum Resource Rent Tax for all onshore and offshore oil and gas including coal seam gas.

15. What is the likely impact of the Resource Super Profit Tax on the coal mining industry and associated support industries? (Courier Mail 23/2/2010)

Answer:

The Resource Super Profit Tax has been replaced with a Minerals Resource Rent Tax for iron ore and coal and a Petroleum Resource Rent Tax for all onshore and offshore oil and gas including coal seam gas.

Electricity / RSPT

16. Will the RSPT apply to fuels used in electricity generation?

Answer:

The Resource Super Profit Tax has been replaced with a Minerals Resource Rent Tax for iron ore and coal and a Petroleum Resource Rent Tax for all onshore and offshore oil and gas including coal seam gas.

17. Will the RSPT flow through to higher electricity costs for business and households?

Answer:

The Resource Super Profit Tax has been replaced with a Minerals Resource Rent Tax for iron ore and coal and a Petroleum Resource Rent Tax for all onshore and offshore oil and gas including coal seam gas.

LNG/RSPT

18. How many tonnes of LNG have been exported from Australian projects operating under the PRRT regime?

Answer:

At this stage there are no LNG exports under the Petroleum Resources Rent Tax.

19. In view of the ongoing Gulf of Mexico oil rig blow out disaster in deep (1,500 metres) water, what confidence might the Australian public take that projects in Australian waters are:
- Better designed and managed by their operators,
 - Better supervised by Government agencies.

Answer:

The Australian Government has implemented a range of measures following the Montara incident in the Timor Sea and Gulf of Mexico incidents. The Government:

- Initiated an Inquiry into the uncontrolled hydrocarbon release from the Montara Wellhead Platform that occurred from 21 August – 3 November 2009. Commissioner David Borthwick AO PSM, delivered his report arising from the Inquiry to the Minister for Resources and Energy, the Hon Martin Ferguson AM MP, on 18 June 2010. The Inquiry was conducted on a “no-blame” basis under the powers of the *Offshore Petroleum and Greenhouse Gas Storage Act 2006*. The Minister is considering the report and has made clear that he will act promptly and appropriately on them.
 - Prior to releasing the report publicly the Minister is bound to take advice to ensure that in the handling of this report he does nothing to prejudice the conduct of further investigations for possible offences including criminal offences, other civil or criminal action, or undermine any natural justice considerations.
- Requested the Northern Territory Government (as the delegated Designated Authority) to undertake a review of the status of wells suspended by PTTEP at the Montara Wellhead Platform;
- Requested all Designated Authorities to undertake a compliance review of existing well approvals;
- Developed and introduced amendments to the *Offshore Petroleum and Greenhouse Gas Storage Act 2006* which are currently before the Parliament. These amendments will enhance the safety and integrity regulation for offshore petroleum activities; and
- Commenced an internal government review of the findings and recommendations arising from the US Department of the Interior’s report on increased safety measures for energy development on the outer continental shelf, for relevance for Australian legislation and regulations.

In addition, the National Offshore Petroleum Safety Authority (NOPSA) has increased its focus, in safety case assessments and through its inspection of drilling rigs, on issues arising from the Montara incident. NOPSA has urged Australian titleholders and rig operators to learn from the initial key safety recommendations made by US authorities in the wake of the Gulf of Mexico incident, including in relation to well control equipment (both surface and subsea), review all rig drilling/casing/completion practices and reviewing all emergency shutdown and dynamic positioning procedures that interface with emergency well control operations.

Companies operating in Australia are reviewing their operations to ensure that there are no further incidents. Companies have already implemented actions in relation to their activities in Australia and worldwide. This includes reviews of well plans, drilling processes, blow-out contingency plans testing frequencies, and training of personnel.

Both the Montara and Gulf of Mexico incidents have identified that regulatory overlaps and inconsistencies in the application of the offshore petroleum legislation across jurisdictions must be addressed to improve safety and environmental performance.

The Deepwater Horizon incident in the Gulf of Mexico is unprecedented and while the level of offshore activity in the US relative to Australia is vastly different, industry and governments, both here in Australia, and internationally, will need to learn from this situation.

The US and the Australian offshore regulatory regimes are not directly comparable. Australia introduced a discrete, standalone safety regulator, NOPSA in 2005 – a step the US is only now implementing following the incident in the Gulf.

The Government is determined to ensure that the strongest model for regulating safety, integrity and the environment. The Productivity Commission, in its *Review of Regulatory Burden on the Upstream Petroleum (Oil & Gas) Sector*, recommended the establishment of a single national offshore petroleum regulator. Minister Ferguson announced his commitment to taking forward the establishment of a national regulator for offshore petroleum, minerals and greenhouse gas storage activities in Commonwealth offshore areas by 1 January 2012.

A single national regulator will ensure world class standards continue to be met by industry on safety and environmental matters.

Coal

- 20.** The Resources Minister has publicly supported the bid by a consortium of coal producers to buy QR's below rail assets, despite the State Labor Government's strong opposition. What actions are being taken to convince the State Government to change its mind?

Answer:

While the Minister for Resources and Energy is on the public record as indicating that the Queensland Government should give serious consideration to the industry consortium bid for Queensland Rail's below rail assets, he also recognises that it is a matter for decision by the Queensland Government."