

Senate Economics Legislation Committee
ANSWERS TO QUESTIONS ON NOTICE
Industry, Tourism and Resources Portfolio
Supplementary Budget Estimates 2005-2006, 2 November 2005

AGENCY/DEPARTMENT: DEPARTMENT OF INDUSTRY, TOURISM AND RESOURCES
OUTCOME/OUTPUT: Outcome 1, Output 1.2
TOPIC: NORTH WEST SHELF CONDENSATE PRODUCTION AND ESTIMATES OF EXCISE PAYABLE
REFERENCE: HANSARD 02/11/05, PAGES E34-35

QUESTION No.SBI-9
(Hansard 02/11/05, p.E34)

Senator O'Brien asked about:

In February last year Senator George Campbell asked Mr Hartwell whether it was correct that condensate produced in association with natural gas on the North West Shelf was not excisable. Mr Hartwell told him that that was correct. Senator Campbell then asked:

If the same excise provisions were applied to condensate produced with natural gas as are applied to condensate produced with oil, what value could be assigned to forgone revenue from this source for the period from 1 July 2003 to 31 December 2003?

Mr Paterson, you responded by saying that extracting the treatment of one element of a production excise and royalty regime from the treatment under the petroleum resource rent tax regime is not something that can be easily done. Isn't it a fact that an estimate can quite easily be made, although it would need to be appropriately qualified? For example, can you provide the production figures for condensate produced on the North West Shelf in association with natural gas for the last two financial years?

ANSWER

The question assumes that it is simple to calculate an estimate of foregone revenue from condensate given the total production of North West Shelf condensate in a particular financial year. This is not correct.

To determine how much revenue would have been raised from the North West Shelf project in 2003-04 had the crude oil excise rates applied to condensate, the following information would be required: the annual and accumulated historic production from each producing petroleum field; the date of discovery of each producing petroleum field; and the date of first production from each producing petroleum field. While the Department has access to total North West Shelf project condensate production figures, it does not have information about the number of separate petroleum accumulations from which the North West Shelf condensate is produced as this can only be determined on the basis of detailed geological advice and there has never been a need to do so. Without this information, any estimate provided would be subject to considerable error, noting that the first 30 million barrels of crude oil from each petroleum field is excise free and that the excise rates then increase in-line with increasing production from each field but at varying rates depending on whether the oil is "old", "intermediate" or "new".

As previously advised, the total condensate produced in association with natural gas from the North West Shelf production licences was approximately 6 million kilolitres in 2003-04 and is estimated to be 5.5 million kilolitres in 2004-05. The breakdown of condensate production by individual fields is not available. Accordingly, we are not in a position to calculate a reliable estimate of excise payable by treating condensate from the North West Shelf as if it had been either "old", "intermediate" or "new" oil.

Condensate, which is produced in association with natural gas, has been excisable at a free rate since 1978. Natural gas has always been excise exempt. It should be recognised that the crude oil excise regime evolved over the late 1970s and 1980s largely to capture windfall gains for the community from highly profitable oil projects as oil prices multiplied over that period. However, the North West Shelf gas project during that period was never as profitable as large oil projects such as those in Bass Strait. Therefore, it can be argued that it is extremely misleading to attempt to apply an excise regime designed to extract windfall profits from highly profitable oil projects to less profitable gas projects.

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The difficulty in assessing the foregone revenue from condensate has been recognised in the Tax Expenditure Statement required under the Charter of Budget Honesty which for the past two years has referred to condensate excise-free status as “an unquantifiable tax expenditure”. However, we understand that Treasury is currently reviewing that assessment and may quantify that tax expenditure in the next Tax Expenditure Statement.