

**Senate Economics Legislation Committee**  
ANSWERS TO QUESTIONS ON NOTICE  
Industry, Tourism and Resources Portfolio  
Budget Estimates 2004-2005, 31 May 2004 to 2 June 2004

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**AGENCY/DEPARTMENT:** DEPARTMENT OF INDUSTRY, TOURISM AND RESOURCES  
**OUTCOME/OUTPUT:** Outcome 1, Output 1.1  
**TOPIC:** PETROLEUM RESOURCES RENT TAX  
**REFERENCE:** WRITTEN QUESTIONS ON NOTICE

**QUESTION No.75** Cross reference: DEST E301\_05  
(Written QON referred by DEST)

**Senator Stott-Despoja** asked:

Why was an effective 150% R&D tax concession introduced for the petroleum sector (the PRRT) when the government has decided that the "...the corporate sector is quite profitable at the present time"? What evidence is there to suggest that the PRRT will be successful in achieving its stated aim?

**ANSWER**

The offshore petroleum exploration incentive increases the value of eligible exploration losses incurred in designated frontier areas by 50 percent when these costs are offset against the petroleum resource rent tax (PRRT).

This measure should not be misconstrued as an R&D style concession. The latter represents an accelerated uplift for eligible research related expenditure against company taxation which applies to all commercial activity. The PRRT represents a resource charge levied in addition to company tax on those tax payers seeking rights to extract non renewable petroleum resources in areas under Commonwealth jurisdiction.

The purpose of the PRRT concession is to increase the chance of finding a significant new oil province, such as another Bass Strait, by providing a strong signal to the global petroleum industry that Australia's untested frontier areas deserve their attention. This measure is needed, as despite the increased profitability of the oil sector and the prospects of sustained higher oil prices, the industry is reluctant to diversify their exploration to unexplored basins. This is because these areas carry higher geological risk (and higher exploration and development costs if the area is in deepwater) and are generally distant from domestic markets.

This reluctance to explore in remote frontier areas in offshore Australia reflects a world wide perception that Australia has low oil prospectivity, a view reinforced by the lack of significant oil discoveries. While the Australian Government has little direct control over oil prospectivity it can increase the expected value of targeted oil fields by improving the reward to risk balance which is influenced by taxation arrangements. Coupled to the exploration acreage release program, and Geoscience Australia's pre-competitive data collection program, which received an additional \$15 million in funding to acquire new data acquisition programs in frontier areas, the designated frontier area proposal is intended to act as a strong signal to the global petroleum industry that Australia is an active competitor in the global market for exploration expenditure.

Australia's record of commercial success when it comes to offshore petroleum discoveries has been around 6 percent. This clearly indicates the high risks involved and why in the absence of a public policy initiative little will be done to increase our prospects of addressing declining domestic oil production.