Chapter 3

Issues raised during the inquiry

Introduction

3.1 During the course of the inquiry the committee was made aware of issues raised by industry resulting from the lifting of the excise exemption on condensate. It was claimed that introducing the excise would reduce profits for condensate producers, with the potential to discourage investment in future North West Shelf Venture (NWSV) projects. It was also claimed that the decision to remove the exemption was made by the government without consulting industry, thereby undermining relations between government and industry. These and other issues raised during the inquiry are discussed in more detail below.

Changed environment and conditions

3.2 Industry did not agree with the view that current levels of profitability justified the withdrawal of the excise exemption. This was still required to provide an incentive for continued investment. Industry contended that 'the exemption was part of a broader fiscal regime introduced in 1977 that was intended to last the economic life of the project' and that it had continued on that basis for over 30 years. The committee heard from NWSV industry that the exemption from the excise was regarded as a permanent feature of industry's financial agreement with government, and that it was regarded as 'a complete fiscal assurance'.[1]

3.3 During the hearings, Ms Eve Howell, Chief Executive Officer of the NWSV told the committee that, in 1977, as the project was being conceived, the Commonwealth government 'acknowledged the long term nature and difference of gas projects from oil projects'. The government then entered into a partnership of assurances with the NWSV participants which led to the stable fiscal regime that had remained in place for over 30 years, helping to 'establish Australia as one of the lowest sovereign risk nations'.[2]

3.4 NWSV impressed upon the committee that as more funding was committed by the participants, it had sought and received assurances from governments that a

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1 Ms Eve Howell, Chief Executive Officer, North West Shelf Venture, *Proof Committee Hansard*, 15 July 2008, p. E23.

2 Ms Eve Howell, Chief Executive Officer, North West Shelf Venture, *Proof Committee Hansard*, 15 July 2008, p. E21.

stable fiscal regime would be maintained[3] and that changes would not be made to the fiscal arrangements without consultation.[4]

3.5 The NWSV submission posited that:

> If the exemption was truly viewed as being a form of developing industry assistance, the government would have abolished it after 1992 once the originally envisaged domestic gas and three train LNG phases of the project had all become fully operational.[5]

3.6 The committee asked the NWSV to expand on claims in their submission, at paragraph 3.3 'developing industry assistance', that the concept of the exemption from condensate tax being regarded as a development assistance measure simply did not accord with the facts under which that exemption was set up. Ms Howell responded:

> I think I have made the point already about a whole-of-life approach. I cannot say what the intentions were in 1977. I was not there. But to the best of my belief, I think that these assurances were put in place on the basis of a whole-of-life approach. Recognise that this is predominantly a gas project, so this was part of the total package. As I say, to the best of my knowledge there was no suggestion that this would be reviewed at a certain time based on the profitability or otherwise of the project.[6]

3.7 In further arguing against the government's case that the excise free status on condensate was an incentive for initial development of the project, APPEA pointed out that the subsequent amendments made to the excise regime in 1997 and 2001 gave no indication of any future intention of modifying the excise treatment of condensate production. APPEA argued:

> Overall, the arrangement has provided an important stimulus for companies to explore for and make subsequent investment decisions to produce condensate that occurs in association with natural gas. In many cases, the production of condensate has provided the economic underpinning for gas projects especially in determining whether projects are to proceed.[7]

Effect on future investment

3.8 As foreshadowed in chapter two, industry argued that lifting the excise exemption would create uncertainty for the project due to the change in a long standing fiscal regime which would threaten future investment.

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3 North West Shelf Venture, *Submission 3*, p. 4.

4 North West Shelf Venture, *Submission 3*, p. 3.

5 North West Shelf Venture, *Submission 3*, p. 4.

6 Ms Eve Howell, Chief Executive Officer, North West Shelf Venture, *Proof Committee Hansard*, 15 July 2008, p. E35.

7 APPEA, *Submission 2*, p. 7.

Sovereign risk

3.9 The NWSV submitted that the decision to change a longstanding fiscal regime without consultation and without a rigorous assessment of the key factors created a new element of sovereign risk not previously seen in the industry. They argued that gas projects were particularly sensitive to sovereign risk because:

- they were long term commitments;
- it took five or more years to plan and construct a multi-train greenfields LNG project;
- there were initial and continuing capital investment requirements for tens of billions of dollars – usually from offshore sources; and
- it could take a decade or more to earn a positive return on this capital investment, with positive life of project returns requiring even longer periods.[8]

3.10 APPEA argued that the overall perception of a particular country as a place to invest was 'critical in a range of important exploration and development decisions'. Ms Robinson told the committee:

> We have always prided ourselves as a nation on being a country which is investor friendly. Although we are the highest cost destination for LNG investment supplying the Asia-Pacific region, we have a reputation for a low level of sovereign risk which counterbalances a range of other technical and geological challenges that disadvantages us relative to our competitors…the change will have an impact through signalling a willingness on the parts of governments to dramatically shift the fiscal terms after a project is up and running and contrary to agreed terms that form the basis of the project going forward on a lifecycle basis. This introduces an important new element in the suite of factors that an investor must consider in making project decisions.[9]

3.11 Industry advised the committee that when signing off on any fiscal project, it was done on the basis of the whole lifetime of that project, and that there was a long period, sometimes 10 or 12 years, until projects actually started to make money. 'Changing the goalposts along the way by definition neglects to take the full cycle of that project into account'.[10]

3.12 Sovereign risk issues were also raised by the NWSV. Ms Howell pointed out that Australia had been regarded as having very low sovereign risk, something that had attracted both Australian companies and international companies to invest in

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8 North West Shelf Venture, *Submission 3,* p. 3.

9 Ms Belinda Robinson, Chief Executive, APPEA, *Proof Committee Hansard*, 15 July 2008, pp E1–E2.

10 Ms Belinda Robinson, Chief Executive, APPEA, *Proof Committee Hansard*, 15 July 2008, p. E4.

Australia. The committee was told that NWSV would like to see oversees investor confidence restored and thought it was unfortunate that the decision might have created a 'little bit of a hiccup in terms of that belief'.[11]

3.13 NWSV called on the government to consult industry about the merits and means of introducing a formal bipartisan system of fiscal stability agreements to provide certainty to long life gas projects.[12]

Future investment

3.14 Industry argued that the change in the fiscal framework would undermine investor confidence and discourage future investment, as investment was sensitive to the taxation regimes applied in different countries.

3.15 As previously mentioned, APPEA told the committee that the existing arrangement had provided an important stimulus for companies to explore and make subsequent investment decisions to produce condensate that occurred in association with natural gas. In many cases, the production of condensate had provided the economic underpinning for gas projects and in determining whether projects were to proceed.[13] In order to illustrate the economics of gas projects Mr Noel Mullen from APPEA told the committee:

> One of the interesting facts in Australia is that very few gas projects have proceeded without associated condensate production. The reason for that is that the condensate actually aids the economics of gas. What we call dry gas projects, which are projects that do not have associated liquids, invariably face significant challenges in terms of their economics. So any imposts which affect the overall economics of a project decision will feed through into the prices that participants or project developers require to make those projects economic…[14]

3.16 The point was made that future investment decisions for fields that have exceeded 30 million barrels for excise free production might be in doubt. Participants might then consider alternative investments if the project seemed unprofitable.[15]

3.17 The committee also noted evidence from APPEA that a number of companies had said they would require some type of fiscal agreement that they could show their

11 Ms Eve Howell, Chief Executive Officer, North West Shelf Venture, *Proof Committee Hansard*, 15 July 2008, p. E36.

12 North West Shelf Venture, *Submission 3*, p. 6.

13 APPEA, *Submission 2*, p. 7.

14 Mr Noel Mullen, APPEA, *Proof Committee Hansard*, 15 July 2008, p. E11.

15 APPEA, *Submission 2*, p. 10.

boards so that investors could be reassured that the 'goalposts' were not going to be changed half way through.[16]

3.18 Similarly, NWSV expressed concern that the effect of the bills had not been adequately considered for the long term nature of gas projects, the ongoing capital investment required and the length of time to achieve a positive return on the investment.[17]

Encouragement for the gas industry

3.19 Concern was expressed regarding the excise hindering future development in the industry. APPEA noted that the excise would create a further imbalance between the resource taxation applied to much of Australia's gas production compared with coal, at a time when more should be done to encourage gas exploration.[18] This was at a time when LNG could play a role in reducing global greenhouse emissions.[19]

3.20 APPEA was also concerned that the measure could affect whether the vast gas resources would be available to meet energy needs in Australia and the Asia-Pacific.[20]

3.21 APPEA advocated that one way to raise an additional $2.5 billon of tax revenue would be to develop extra LNG projects. Every two new trains of LNG would deliver $40 billion of tax revenue to the government over the life of the project. Finding ways to encourage and grow the industry was the 'key'.[21]

3.22 Mr Colin Brown, Acting General Manager, Tax Analysis Division, Treasury, told the committee they did not expect the measure to have any effect on exploration of other areas as the only major offshore area affected is the North West Shelf. He pointed out that other offshore areas are subject to the PRRT and this has not changed.[22]

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16 Ms Belinda Robinson, Chief Executive, APPEA, Proof Committee Hansard, 15 July 2008, p. E13.

17 Ms Eve Howell, Chief Executive Officer, North West Shelf Venture, *Proof Committee Hansard*, 15 July 2008, p. E21.

18 Information available at: http://www.abc.net.au/news/stories/2008/05/14/2244387.htm, accessed on 23 June 2008.

19 Ms Belinda Robinson, APPEA, *Proof Committee Hansard*, 15 July 2008, p. E12.

20 Ms Belinda Robinson, APPEA, *Proof Committee Hansard*, 15 July 2008, pp E7–8.

21 Ms Belinda Robinson, Chief Executive, Mr Noel Mullen, Deputy Chief Executive, APPEA, *Proof Committee Hansard*, 15 July 2008, p. E19.

22 Mr Colin Brown, Acting General Manager, Tax Analysis Division, Treasury, *Proof Committee Hansard*, p. E7.

Lack of consultation

3.23 Industry told the committee that the decision to remove the condensate exemption was announced without consultation with the affected companies or the wider industry and that this had undermined relations between government and industry, and had created uncertainty for investors.[23]

3.24 Industry stated that it was difficult to look at these projects in comparison to other ventures to see if the measure created a level playing field or not, as there had been no consultation with government. This made it difficult for industry to assess the measure or model its full effect. Ms Howell told the committee:

> We would like to have the opportunity to engage with government and to engage with Treasury to work through these issues, which we believe should have been worked through before this announcement was made.[24]

3.25 The committee noted that the Prime Minister had addressed this issue and stated:

> The government maintains a close working relationship with the mining sector and the resources sector in Australia. We have done so in the past; we will continue to do so in the future.[25]

Wider policy implications

3.26 It was argued that there was a need to recognise the role that LNG could play in reducing global greenhouse emissions and in energy security. Dr Richard Griffiths raised the question of how Australia was hedging against the inevitable decline of energy resources. Dr Griffiths spoke to the committee about the need for Australia to look to overseas experiences such as in Norway where the government established an oil taxation regime to hedge against declining energy resources in the medium to long term.[26]

3.27 The committee noted with disappointment that the Department of Resources, Energy and Tourism declined to provide a submission or appear before the committee and therefore there was no opportunity to discuss these broader questions. However, the committee noted the work underway by the department on the development of a White Paper on energy issues[27] and a National Energy Security Assessment.[28] The

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23 North West Shelf Venture, *Submission 3*, p. 3.

24 Ms Eve Howell, Chief Executive Officer, North West Shelf Venture, *Proof Committee Hansard*, 15 July 2008, pp E28–29.

25 Prime Minister, The Hon Kevin Rudd MP, *House of Representatives Hansard*, 26 May 2008, p. 3097.

26 Dr Richard Griffiths, *Proof Committee Hansard*, 11 August 2008, p. E9.

27 The White Paper was announced by the Prime Minister on 28 May 2008.

committee supported the government's stated objectives of energy security and the reduction of fossil fuel related greenhouse emissions.[29]

Committee view

3.28 Since these broader issues raised in evidence were not able to be addressed, especially in regard to the role of LNG in reducing global greenhouse emissions and energy security, the committee recommends that the government, as part of the work outlined above, clarify the role of the gas industry within broader energy security and climate change policies in order to provide more certainty for industry development and investment.

Recommendation 2

3.29 The committee recommends that the work being undertaken by the Department of Resources, Energy and Tourism to produce a White Paper and National Energy Security Assessment clarifies the role of the gas industry within broader energy security and climate change policies to provide greater certainty for future projects and investment.

Effect on the community

3.30 Industry representation argued that the increased administrative and compliance costs resulting from this measure could lead to increased gas prices.

Additional administrative costs

3.31 APPEA pointed out that the producers of condensate would now face a range of compliance and verification obligations. APPEA particularly mentioned the need for producers to nominate 'prescribed condensate production areas' which formed the basis under the legislation for levying the excise on condensate production. They noted the Excise Tariff Amendment (Condensate) Bill 2008 applied a wide definition that gave a significant degree of discretion to the Australian Taxation Office (ATO). However the *Excise Tariff Act 1921* provided guidance on how this discretion should be exercised. They cautioned that similar principles in defining 'prescribed condensate production area' should apply as currently existed for crude oil production.[30]

3.32 Because the decision had a commencement date of budget night, APPEA argued that the complexity of the crude oil excise regime made such a decision very

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28 The assessment will identify key strategic energy security issues in the liquid fuels, natural gas and electricity sectors currently and those likely to influence the level of energy security in 5, 10 and 15 years. It will consider how the identified strategic issues could affect adequacy, reliability and affordability in each of the energy sectors.

29 Available at: http://www.ret.gov.au/energy/facts/Pages/EnergyWhitePaper.aspx and http://www.ret.gov.au/energy/energy_security/national_energy_security_assessment/Pages/NationalEnergySecurityAssessment.aspx, accessed on 31 July 2008.

30 APPEA, *Submission 2*, pp 8–9.

difficult to implement. The number of offshore and onshore petroleum fields covered by the decision made the technical processes of identifying, verifying and auditing historical production extremely challenging, assuming information actually even existed. Despite the industry now being subject to a $2.5 billion excise, APPEA had been working collaboratively with the ATO to streamline the process. APPEA pointed out that these processes would require much time to implement.

3.33 On top of this, it was highly unlikely that existing onshore discoveries of condensate would ever incur an excise liability. However, onshore producers still needed to comply with implementation and reporting obligations under the regime.[31] APPEA argued that the potential excise liability on onshore condensate production in the event of a future discovery might discourage future exploration.[32]

3.34 Mr McCullough from Treasury responded to this issue at the Canberra hearing by explaining that the compliance costs and requirements would be minimised as far as possible for those temporarily not subject to the regime.[33]

Domestic gas prices

3.35 Concerns were expressed that additional administrative and compliance costs incurred by the industry would be passed on to consumers through higher gas prices.

3.36 APPEA cautioned that where excise was payable, gas producers might now require higher prices on gas sales to underpin or support project economics.[34] Ms Howell of NWSV told the committee that future contracts would have to offset these additional costs,[35] including whether or not these costs should be passed on to consumers. Costs might not be recouped by industry for existing contracts.[36]

3.37 As Ms Robinson from APPEA explained:

> …I think that is a really important thing to remember with the gas industry; they are subject to long-term contracts. Some of them are not particularly favourable, but they were signed off at a particular time that you wear. So

31 Ms Belinda Robinson, Chief Executive, APPEA, *Proof Committee Hansard*, 15 July 2008, p. E2 and Mr Noel Mullen, Deputy Chief Executive, APPEA, *Proof Committee Hansard*, 15 July 2008, pp E9–E10.

32 APPEA *Submission 2*, pp 9–10.

33 Mr Paul McCullough, Acting General Manager. Revenue Group, Treasury, *Proof Senate Hansard*, 11 August 2008, p. E5.

34 APPEA, *Submission 2*, p. 11.

35 Ms Eve Howell, Chief Executive Officer, North West Shelf Venture, *Proof Committee Hansard*, 15 July 2008, p. E26.

36 Ms Eve Howell, Chief Executive Officer, North West Shelf Venture, *Proof Committee Hansard*, 15 July 2008, p. E34.

> the options really are to take it on the chin, take it off your bottom line or to pass it through in your future contracts—so from here on in…[37]

3.38 The media reported that at Woodside's recent annual general meeting, shareholders expressed concern that the company was focussed on lucrative exports instead of domestic natural gas supply. The company responded that while it needed to capitalise on the current high LNG prices, it would reserve 15 per cent of LNG from its Pluto development for domestic purposes under the WA government's gas reservation policy[38].[39] Dr Griffiths suggested to the committee that the Western Australian approach could be used elsewhere to provide Australia with some degree of fuel security.[40]

3.39 When asked at the Perth hearing about the price of domestic gas, Ms Howell told the committee:

> What I can say is that our current domestic contracts are in place and will be honoured. We in general have no ability to pass on this additional impost. However, this will be one of a number of factors that are currently impacting domestic gas prices, including the supply-demand balance.[41]

3.40 Mr Brown from Treasury responded to questions on this issue by stating that there would be no affect on domestic gas prices as these were set by international markets.[42] Responding to additional questions he provided further explanation to the committee:

> …in terms of WA gas prices, there are probably two things regarding the types of gas that are used. Liquid petroleum gas, which is one form of gas that is used there, is priced in WA by reference to a world price for liquid petroleum gas – as it is in the rest of Australia. In the case of natural gas supplied to small use customers in Western Australia that is subject to

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37 Ms Belinda Robinson, APPEA, *Proof Committee Hansard*, 15 July 2008, p. E8.

38 Western Australia released its domestic gas reservation policy statement in October 2006. It aims to ensure adequate access to domestic gas supplies. The equivalent of 15 per cent of LNG production from export gas projects is required to be reserved for domestic use as a condition of access to WA land for the location of processing facilities. The target of 15 per cent reflects current estimates of future gas needs, estimated gas reserves and forecast LNG production and will be subject to periodic review. Available at: http://www.hawkerbritton.com/hawker-britton-media/public-affairs/western-australia-domestic-gas-policy.htm accessed 21 July 2008.

39 'Condensate Exemption hits Woodside hard', *Sydney Morning Herald*, available at: http://news.smh.com.au/business/condensate-exemption-hits-woodside-hard-20080514-2e2l.html, accessed 21 July 2008.

40 Dr Richard Griffiths, *Proof Committee Hansard*, 11 August 2008, p. E15.

41 Ms Eve Howell, Chief Executive Officer, North West Shelf Venture, *Proof Committee Hansard*, 15 July 2008, p. E27.

42 Mr Colin Brown, Acting General Manager, Tax Analysis Division, Treasury, *Proof Committee Hansard*, 11 August 2008, p. E3.

regulation by the Western Australian government under the energy coordination gas tariff regulations.[43]

Effect on the price of petrol

3.41 The question of whether the measure would affect the price of petrol was also raised. The government explained that the measure would not have any effect on the price of petrol as this was set by international markets which make Australia a 'price taker'.[44]

Committee view

3.42 The committee noted the inclusion of a 60 day registration/compliance period to assist the compliance and verification process.

3.43 The committee noted the concerns about the effect of the measure on the price of domestic gas but received no conclusive evidence from the industry that this would occur. Treasury officials reassured the committee that they did not expect any effect.

Industry profits

3.44 One of the concerns raised by industry during the inquiry was the perception that industry was making huge profits, and that this was the driver for the implementation of the measure. APPEA highlighted the issue, and told the committee that this misconception was due to a failure to recognise the long lead times in the gas industry, contracts that lock in prices, high capital costs and delayed profitability.[45]

3.45 APPEA noted in their submission that the government had failed to recognise that the strength in commodity prices had coincided with a period of rapid cost growth for the industry in exploration expenditure over the last three years which was constraining growth in profits.[46]

3.46 NWSV noted that the headline oil price did not flow on to companies on a proportionate basis for these reasons:

- oil and gas project costs have doubled over the past five years and would continue to escalate due to broader economic issues affecting the oil and gas industry and as participants pursued the exploration and development of more remote gas reserves;

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43 Mr Colin Brown, Acting General Manager, Tax Analysis Division, Treasury, *Proof Committee Hansard*, 11 August 2008, p. E7.

44 The Hon Chris Bowen, Assistant Treasurer, *House of Representatives Hansard,* 15 May 2008, p. 2880.

45 Ms Belinda Robinson, Chief Executive, APPEA, *Proof Committee Hansard*, 15 July 2008, pp E7–E8.

46 APPEA, *Submission 2*, pp 11–13.

- much of gas production was sold locally, or if exported, was sold under long term contracts with prices not totally linked to global oil and gas prices; and
- the rise in the Australian dollar had offset a material part of the rise in US dollar denominated oil and export gas prices.[47]

3.47 NWSV concluded that the combined effect of an appreciating Australian dollar and low-priced gas contracts was that the average realised price per barrel-of-oil-equivalent (boe) of oil and gas production in Australia increased by just 36 per cent over the five years to 2006–07. This was compared with a near trebling of world oil prices (from $US21.59 per barrel (bbl) in 2001–02 to $US59.45 per bbl in 2006–07 in trade weighted terms).[48]

3.48 As Ms Robinson pointed out, while there had been a well-documented oil price rise, industry was becoming worried about the view that this simply translated into higher returns or windfall profits which was not the case. Much higher costs had eroded returns on investment, the industry faced the same challenges that confronted the rest of the resources sector and that spiralling costs constrained exploration and development budgets.[49] Ms Robinson stated:

> The increase in tax revenue is a consequence of the increase in the price of oil, which is how the taxes are calculated. That is why we are seeing the increase in the revenue; it is because of the increase in the value of the oil. So, the higher the price of oil, the more tax revenue is generated back to government. That has nothing to do with company profits.[50]

Committee view

3.49 The committee noted the view in chapter two that, despite increasing costs, the industry continued to announce profits and joint venture partners' larger earnings bases would lessen the proportional effect on profits. The committee also accepted that the current profitability of the oil and gas industry looked set to continue for the foreseeable future with rising oil prices. It also recognised that industry profitability had been affected by the low prices for LNG negotiated in early contracts. The committee could make no comment on past negotiations, but made the point that company profitability was far more dependent on markets and negotiation of sales than on obligations to pay excise.

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47 North West Shelf Venture, *Submission 3*, p. 5.

48 North West Shelf Venture, *Submission 3*, p. 5.

49 Ms Belinda Robinson, Chief Executive, APPEA, *Proof Committee Hansard*, 15 July 2008, p. E2.

50 Ms Belinda Robinson, Chief Executive, APPEA, *Proof Committee Hansard*, 15 July 2008, p. E14.

Conclusions

3.50 The committee agreed with the main argument from the government that rather than assisting mature and profitable projects, it was time to reassess incentives to encourage investment in new projects. The committee noted the new gas projects mentioned by the Minister for Energy and Resources such as Gorgon, Browse and Sunrise and agreed that encouraging investment in new projects should be the priority.

3.51 The committee agreed that taxation regimes needed to change to take account of changing environment and conditions. The committee noted the crude oil excise had been modified a number of times since it was introduced in the 1970s to take account of changing conditions and accepted that an adjustment to the condensate excise as a result of changing conditions and to encourage new projects was also warranted.

3.52 The government's announcement that the Henry review would include tax issues facing the gas sector was supported by the committee. The committee agreed that the taxation regime is important for investment and long-term development of the industry. It recommends the government consider other incentives to encourage investment.

3.53 The committee noted industry views on sovereign risk, but believed that the government's decision to impose an excise scarcely constituted a threat to either markets or investment. The committee also noted that if the measure was believed to have a wider effect on the investment climate and investor confidence the committee would have expected to receive more submissions from a wider range of concerned parties.

3.54 Broader issues raised in evidence were not able to be addressed, especially in regard to the role of LNG in reducing global greenhouse emissions and energy security. The committee recommends the government address the role of the industry in the current work under way in the Department of Resources, Energy and Tourism on the development of a White Paper on energy issues and a National Energy Security Assessment to provide more certainty for industry development and investment.

3.55 The committee agreed with the government's position that the industry was liable for a tax on extraction of non-renewable energy resources for profit and that a benefit should be returned to the community. The committee recognised that producers were concerned about the effects of this legislation upon shareholder returns and on their profit margins generally. However, such measures were bound to be unpopular with those from whom the revenue was raised. The committee considered that producers had enjoyed the benefits of the excise exemption for far too long, and in effect, the changes simply adjusted the condensate producers' profit margins to levels consistent with similar forms of production. It repeated its earlier comment that arguments about lack of consultation on the imposition of an excise were naïve. Governments did not consult those whom they tax beforehand for reasons too obvious to cite in this report.

3.56 Industry argued that higher oil prices were substantially offset by increasing project development costs. The committee noted that despite increasing costs the industry continued to announce profits and joint venture partners' larger earnings bases would lessen the proportional reduction of profits. The committee also accepted that the current profitability of the oil and gas industry looked set to continue for the foreseeable future with the trend for rising oil prices.

3.57 The committee noted the concerns about the effect of the measure on the price of domestic gas. The committee, however, did not receive conclusive evidence from the industry that this would occur.

3.58 After considering the evidence the committee believed the measure to lift the exemption from an excise on condensate is justified and supports the government's introduction of the relevant legislation.

Recommendation 3

3.59 **The committee recommends that the bills be passed.**

Senator Annette Hurley

Chair