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Senator for Western Australia  
Mathias Cormann  
Chair  
Senate Fuel and Energy Select Committee  
Parliament House  
Canberra ACT 2600

Dear Senator

Thank you for your letter seeking BP Australia's initial responses to the Review of Australia's Future Tax System (Henry Review). The Henry Review is lengthy and comprehensive, and we are continuing to analyse it against the key objectives which we articulated in our submission to the Energy White Paper process (attached for your information).

In summary, these are:

- (i) capturing the opportunity for prosperity presented by Asian economic growth;
- (ii) transitioning to a low carbon future;
- (iii) enhancing domestic energy security; and
- (iv) ensuring Australia's energy markets are competitive.

At this stage, it is premature to fully declare an assessment of the Henry Review against these objectives. However I can give some preliminary guidance against the specific questions that you have asked.

*What is your assessment of the proposed Resource Super Profits Tax on your field?*

In principle, a true rent tax is an efficient way for the community to share in the benefits from the extraction of non-renewable resources. However the RSPT as initially proposed is flawed in three major respects.

Firstly, setting the uplift on expenditures at the Long Term Bond Rate does not adequately reflect project risk, and the proposal to offer a refundable offset for loss-making projects does not work as a proxy. Secondly, depreciating capital investments over long time lines does not reflect the very deep capital requirements in industries such as Liquefied Natural Gas (LNG), and would see projects paying a "profit" tax when they are still many years away from breaking even on a cash flow basis. Thirdly, imposing the change retrospectively on projects that were sanctioned

on a fundamentally different basis is both unfair and, because it impacts different companies differently, is inequitable. For example the North West Shelf Venture appears to be alone amongst current oil and gas projects in Commonwealth waters to be denied the option to opt-in to the RSPT or to remain on current arrangements.

*What is your assessment of the impact of the Resource Super Profits Tax on fuel and energy security in your field?*

Despite having provided natural gas to Western Australian customers for in excess of 25 years, the North West Shelf Venture still has a very high requirement for ongoing investment – for example to develop remaining oil and gas accumulations. Undermining the economics of the Venture will make these investments harder to justify, reducing resource recovery. The same is true of future offshore projects, if they are forced to operate under the RSPT rather than the more appropriate framework of the Petroleum Resource Rent Tax (PRRT). However it is not possible to be precise on the impact in the absence of further clarity on the RSPT details.

*What is your assessment of the impact of the Resource Super Profits Tax on jobs in your field?*

The main driver of employment in the oil and gas sector is the construction of new projects. Current projects that have been confirmed to remain covered by the PRRT should be unaffected, however projects that either pre- or post-date the PRRT appear to be covered by RSPT. A reduction in sanctioned projects will have an impact on employment. This applies at established projects such as the NWSV as well as Greenfields projects, because many incremental investments continue to be made through the life of a development.

*How do you see the proposed resource exploration rebate impacting on your field?*

The resource exploration rebate will have no material beneficial impact on oil and gas exploration, as it does not apply a multiplier on frontier exploration expenditure. Therefore only companies that make a tax loss will see a benefit in the form of a cash refund, but typically such companies are not large enough to participate in substantial oil and gas exploration.

*Do you have any other issues you wish to raise with the Committee about the recommendations set out in the Henry Tax Review and/or the government's response to these recommendations?*

Not at this time.

Thank you again for providing BP Australia the opportunity to make these comments.

Yours sincerely

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Director Communications & External Affairs