

Senator the Hon. Mathias Cormann  
Chair, Senate Select Committee on Fuel and Energy  
PO Box 6100  
Parliament House  
Canberra ACT 2600

31 May 2010

via email: [fuelenergy.sen@aph.gov.au](mailto:fuelenergy.sen@aph.gov.au)

Dear Senator Cormann,

**AUSTRALIA' FUTURE TAX SYSTEM: REPORT TO THE TREASURER (THE 'HENRY TAX REVIEW')**

I acknowledge your letter dated 13 May 2010 requesting a response from the Australasian Convenience and Petroleum Marketers Association (ACAPMA) to questions raised by the Senate Select Committee on Fuel and Energy (the Committee). ACAPMA is pleased to provide its views to the Committee regarding the Henry Tax Review and the Tax Policy Statement in response titled *Stronger, Fairer, Simpler: A tax plan for our future*. As reflected by the Committee's specific questions, ACAPMA will concentrate on the proposed Resource Super Profits Tax (RSPT) and the resource exploration rebate, as well as providing some general comments on the Henry Tax Review.

ACAPMA is a petrol industry advocate representing 91 member businesses and the more than 2500 fuel retail sites that they either own and operate directly or deliver fuel to under contract. ACAPMA members are typically small-to-medium sized businesses operating in the wholesale distribution and/or retail sector, commonly called the downstream segment of the Australian petroleum industry. Collectively, they handle around 14 billion litres of petroleum products, 75% of which is delivered in rural and regional areas. By addressing specific points in your letter, ACAPMA hopes to indicate to the committee that the proposed RSPT has no significant impact on the operation of ACAPMA member's businesses.

The upstream sector of the petroleum industry has operated under either a Crude Oil Excise and Royalties Scheme or Petroleum Resource Rent Tax (PRRT) since August 1975. The PRRT is currently levied at a rate of 40% on the taxable profits derived from petroleum projects including crude oil, condensate and liquefied petroleum gas. Regardless then of what may occur in the wider exploration and mining industry, operators in the upstream petroleum industry have spent many years complying with a Federal resource tax.

It is our understanding that the proposed RSPT will replace the crude oil excise, and operate in parallel with State and Territory royalty regimes. Projects within the scope of the PRRT will have the option of opting into the RSPT or staying in the PRRT. The election into the RSPT will be irrevocable. Either way, PRRT and RSPT are levied on those companies that operate in the oil and gas exploration sector, also called the upstream side of the petroleum industry. As ACAPMA members do not derive any of their operating income from activities in this area, they will not be subject to the proposed tax.



In 2008–09, Australia ‘mined’ 27 800 ML (million litres) of crude oil, more than 60% in the Carnarvon Basin in Western Australia. More than 70% of the crude oil produced here is sent to refineries in other countries, and Australia imported about 31 000 ML of crude oil, mainly from Vietnam and Indonesia. Not only is it cheaper to transport crude oil from Western Australian to Asia than deliver it to the east coast, but also Australian crude oil tends to be a lighter ‘sweeter’ product that attracts higher prices in global markets. Australian refiners seek out cheaper alternatives from other sources for local refining. In addition, the yield profile from Australia’s sweet crude during the refining process does not closely match Australia’s demand.

Few countries are fully self-sufficient in petroleum. ACAPMA appreciates it will be international cooperation and political stability that will deliver fuel security for Australia.

Regardless of what taxes are paid by companies extracting crude oil in Australia, the price achieved for domestic crude oil reflects the world market prices for the product. The imposition of the PRRT has not affected international crude oil pricing, therefore it has had no effect on refined product pricing or domestic retail prices. We do not expect the RSPT to have any effect in the future. Instead, the tax on profits reduces the net income of upstream companies, and this may have an impact on an upstream operator’s appetite to employ. However, as ACAPMA members operate in the downstream sector, there should be little, if any, impact on jobs in this sector.

During the 1990s and again in 2004 and 2008, the Australian Government introduced measures into the PRRT to encourage petroleum exploration. These included the ability to transfer undeducted exploration expenditure to other projects held by the same entity, an uplift of 150% on PRRT deductions in designated offshore frontier areas and a ‘look back’ rule to allow for retention leases on sites to be explored with deductions on expenditure allowed where a production is derived. We believe that the implementation of resource exploration rebate would only bring other mined products into line with the upstream petroleum industry.

In our reading of the Henry Tax Review, ACAPMA would agree with certain recommendations. The removal of all fuel excise and registration taxes, if replaced by more efficient road user charges, would be positive progress. By removing the fuel excise, which is largest component of the board price after production costs, the motorist would be able to understand the relationship of board price to the wholesale price. By then charging, as recommended in the Henry Tax Review, congestion taxes as well as ‘mass-distance-location’ charges, motorists would be able to better manage their personal transport requirements. This, in some cases, could reduce the cost of transport when managed correctly.

By addressing the Committee’s questions, it has been shown that the proposed RSPT has little impact on ACAPMA members. However, we would not agree with the imposition of any further taxation on business especially targeted at specific industries. In its current form, the RSPT is little more than an extra tax on the resources industry. We would have hoped for a wider debate on the Henry Tax Review recommendations, before the cherry picking that has occurred.

I thank the committee for inviting ACAPMA to comment on the RSPT and I would be happy to make myself available to the committee in the future.

Yours sincerely,

Nic Moulis  
General Manager, ACAPMA