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30 July 2015

Dr Kathleen Dermody  
Committee Secretary  
Senate Standing Committees on Economics  
PO Box 6100  
Parliament House  
Canberra ACT 2600

Dear Dr Dermody

### **Submission to the Senate Economics References Committee**

I refer to your email dated 10 July 2015 inviting Chevron Australia Holdings Pty Ltd ('Chevron Australia') to make a submission to the Senate Economics References Committee's inquiry into corporate tax avoidance and minimisation.

### **About Chevron**

Chevron is one of the world's leading integrated energy companies. We are involved in virtually every facet of the energy industry. We explore for, produce and transport crude oil and natural gas; refine, market and distribute transportation fuels and lubricants; manufacture and sell petrochemical products; generate power and produce geothermal energy; invest in profitable renewable energy and energy efficiency solutions; and develop the energy resources of the future, including researching advanced biofuels.

Chevron's subsidiaries and affiliates conduct business all around the globe, including extensive operations across Asia Pacific - in Australia, Bangladesh, China, Indonesia, Malaysia, Myanmar, New Zealand, the Philippines, South Korea, Singapore and Thailand. Our Asia Pacific headquarters are based in Singapore.

### **Chevron's Operations in Australia**

Chevron has been present in Australia for more than 50 years.

Chevron Australia leads the development of the Gorgon and Wheatstone gas projects. The company is a foundation participant in the North West Shelf Venture (NWSV); operates Australia's largest onshore oil field on Barrow Island; and is a significant investor in exploration off Western Australia and South Australia.

The Gorgon and Wheatstone projects represent over \$80 billion of investment. Chevron Australia's share of this investment is the largest investment by a single company in Australia's history<sup>1</sup>.

Chevron Australia is the largest exploration lease holder and the largest holder of natural gas resources in Australia. Since 2009, Chevron Australia has announced over 25 offshore discoveries and has invested over \$1 billion in research and development in Australia.

Based on independent economic analysis undertaken by ACIL Allen Consulting, the Australian projects Chevron Australia manages and participates in, over the period 2009 to 2040, are estimated to add:

- more than \$1 trillion to Australia's gross domestic product;
- more than 165,000 jobs in Australia; and
- more than \$380 billion to Federal Government revenue.

Chevron Australia's contribution to the above Federal Government revenue is in excess of \$100 billion.

To date the Gorgon and Wheatstone projects have created 17,000 jobs across Australia and spent over \$40 billion with more than 600 local companies.

Once construction of the Gorgon and Wheatstone projects is completed, they will deliver significant long-term benefits to the Australian economy over their operating lives. During operations, it is expected that more than 80 percent of expenditure will be spent in Australia, resulting in tens of millions of dollars spent with local businesses each month.

### **Chevron Australia's Tax Profile**

While the major tax revenue contribution from Chevron Australia will be achieved after completion of Gorgon and Wheatstone, Chevron Australia is already a significant tax contributor.

In Australia, in respect of the years ended 31 December 2010 to 31 December 2014, Chevron Australia has paid over \$3 billion in Federal and State taxes.

Chevron Australia's primary source of income is from the NWSV. However, these revenues have been largely offset by exploration costs, research and development costs and most significantly, the funding costs associated with the construction of the Gorgon and Wheatstone projects (which reached final investment decision in September 2009 and September 2011 respectively).

Given where Chevron Australia is in the investment lifecycle, our current income tax profile should come as no surprise. However, once Gorgon and Wheatstone have completed construction and are in full production they are expected to commence delivering significant taxation receipts to Australia over their operating lives.

Chevron Australia is vitally interested in tax policy that ensures certainty and fairness for our significant, long-term investments in Australia. Chevron Australia is contributing to the current broader tax reform process in Australia through its membership of the Australian Petroleum Production & Exploration Association, the Corporate Tax Association and the Business Council of Australia and also participates in consultations with Treasury in the development of new law.

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<sup>1</sup> ACIL Allen Consulting independent economic analysis, 2015

Chevron Australia's risk rating in the Australian Taxation Office's (ATO) 'Risk-differentiation Framework' is 'key tax payer'. The spectrum of our engagement with the ATO ranges from compliance reviews, audits and disputes, to seeking Private Binding Rulings and Advanced Pricing Arrangements on complex and uncertain tax matters, as well as contributing to its development of relevant public rulings and interpretive guidance (either directly or through our membership of various industry bodies).

### **Chevron Australia's Relationship with Foreign Affiliates**

The Committee has requested information on the relationship between Chevron's Australian operations and associated operations in foreign jurisdictions, particularly Singapore.

The Committee has requested information about:

- how Chevron Australia is related to any operations in foreign jurisdictions, either directly or through a parent company;
- how many subsidiaries either the Australian company or the parent company has that are related to Australian operations, and where these subsidiaries are located; and
- what the value of transfers between these related operations has been for each year over the last 5 years by jurisdiction, and an explanation of the flows of money between those subsidiaries and the Australian operations.

In relation to Singapore specifically, Chevron has had an operating presence there since 1933 when it first entered the Asia Pacific market and it also serves as Chevron's Asia Pacific headquarters with over 1000 employees supporting the businesses that operate in Singapore and the Asia Pacific region. The general corporate income tax rate in Singapore is 17% except where a reduced concessional rate has been granted by the Singaporean Government in respect of qualifying income earned in certain industries, such as commodities trading and marine transportation.

Chevron's Asia Pacific Gas Commercialisation and Supply & Trading operations currently employ over 125 people in Singapore with responsibility for conducting commercial operations and operational support for the supply of raw material inputs to Chevron's downstream and chemicals businesses as well as commercialising and trading crude and condensate, refined products, LPG and LNG.

Chevron's Asia Pacific shipping and transportation operations are also headquartered in Singapore, with over 50 employees that conduct commercial operations and provide operational support in connection with managing Chevron's fleet of ships operating in the Asia Pacific region and providing transportation services for the delivery of crude and condensate, refined products, LPG and LNG to Chevron's Asia Pacific customers.

In respect of the matters covered in this submission we highlight the following:

- Once Gorgon and Wheatstone have completed construction and are in full production they are expected to commence delivering significant taxation receipts to Australia over their operating lives.
- Our revenues are immobile, we have a significant physical presence in Australia and receipts from the sales of our products are subject to tax in Australia.

- The majority of our product sales (approximately 63%) have been undertaken directly with third party customers. The balance has been undertaken with related foreign affiliates, primarily in Singapore. The full value of the sales proceeds received by our affiliates was included in assessable income in Australia.
- The marketing fee paid to our affiliate in Singapore in relation to product sales has been less than \$2.5 million (i.e. less than 0.05% of the value of those sales).
- Our funding profile is directly driven by our investment profile in Australia.
- Our expenditure with related foreign affiliates represents approximately 13% of our total expenditure.

Details of our relationships and value transfers with related foreign affiliates in Singapore and other jurisdictions are enclosed in the appendices to this letter.

Please contact me if you would like to discuss the submission.

Yours sincerely

**Roy J Krzywosinski**  
Managing Director

**APPENDIX I**

There are three entry points into Australia, with by far the most significant investment and operations being undertaken by Chevron Australia and its wholly-owned subsidiaries.

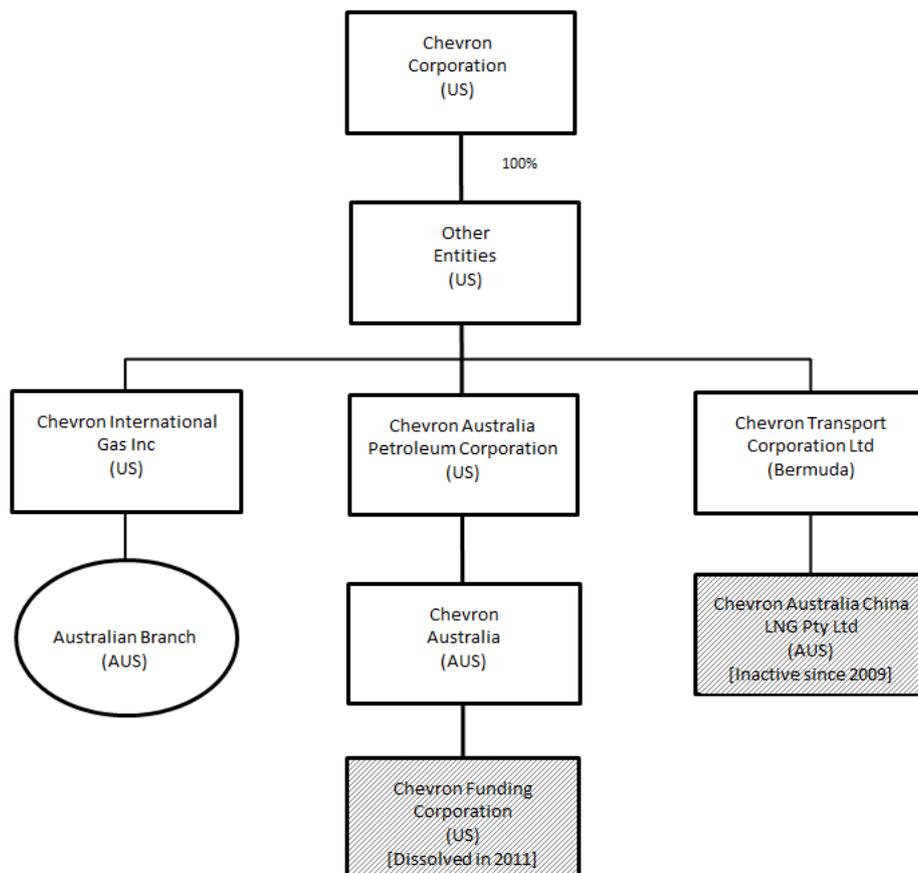
Chevron Australia’s ultimate parent is Chevron Corporation, a company incorporated in Delaware, the United States of America. Chevron Australia Petroleum Company, a company incorporated in the US, directly holds 100% of the shares in Chevron Australia.

Chevron Australia has 27 wholly-owned subsidiaries in Australia. These entities have elected to form a tax consolidated group and are treated as a single entity for income tax purposes (as represented in the diagram below). At present, Chevron Australia does not have subsidiaries in any foreign jurisdictions.

Chevron International Gas Inc (Australian Branch) was established in 2011. This entity provides LNG and domestic gas marketing support, transport and administrative services to Chevron Australia.

Chevron Australia China LNG Pty Ltd was established to charter vessels to transport LNG from the NWSV to China. This entity has not traded since 2009.

Our ownership structure into Australia over the past 5 years is as follows:



**APPENDIX II****Chevron Australia - Related Party Transactions**

Below is a summary of transactions between Chevron Australia and related foreign affiliates for the past five completed financial and income tax years (being the years ended 31 December 2010 to 31 December 2014).

In our response we have provided information in respect of each transaction type with related foreign affiliates with a cumulative value of \$5 million or more in any single year (except where noted below) and thus have provided over 96% of the year by year value of our dealings with related foreign affiliates.

We make the following comments in relation to these transactions:

**Revenue**

Chevron Australia derived the following revenue from related foreign affiliates throughout the years ended 31 December 2010 to 31 December 2014:

Revenue (A\$ millions)						
Jurisdiction	2010	2011	2012	2013	2014	TOTAL
US	\$94	\$111	\$98	\$149	\$142	\$594
Singapore	\$1,048	\$878	\$1,085	\$973	\$944	\$4,928
						\$5,522

The details of the value transfers that comprise the revenue above are set out in the following two tables:

Product Sales (A\$ millions)						
Jurisdiction	2010	2011	2012	2013	2014	TOTAL
US	\$47	\$38	\$26	\$52	\$37	\$200
Singapore	\$1,048	\$878	\$1,085	\$973	\$944	\$4,928
						\$5,128
Number of related parties	3	3	2	2	2	

- A Chevron Australia affiliate in the US undertook some sales of LNG from the NWSV. Our US affiliate received a 3% commission, therefore the value included above represents 97% of the sales proceeds received from third parties. Following an ATO audit on this matter, which has now been resolved and settled, the full value of the sales proceeds received by our affiliate was included in assessable income in Australia. This sales arrangement ceased in the year ended 31 December 2014.
- A Chevron Australia affiliate in the US acquired some LNG from the foundation participants of the NWSV, including Chevron Australia. These purchases were undertaken on a market price basis and the value transfer represents Chevron Australia's one-sixth share of the sales proceeds which was included in assessable income in Australia.
- Amounts received from an affiliate of Chevron Australia in Singapore relate to sales of crude oil and condensate from the NWSV and sales of crude oil from the Barrow and Thevenard Island operations. These products are sold by Chevron Australia's Singaporean affiliate and the full value of the sales proceeds received by our affiliate was included in assessable income in Australia.



The details of the value transfers that comprise the expenditure above are set out in the following four tables:

<b>Funding Costs (A\$ millions)</b>						
<b>Jurisdiction</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>TOTAL</b>
US	\$416	\$665	\$976	\$1,265	\$1,837	<b>\$5,159</b>
Number of related parties	3	1	1	1	1	

- With the exception of \$272 million, funding costs incurred in the years ended 31 December 2010 to 31 December 2014 relate to funds advanced by our immediate parent company in the US. These funds were borrowed to principally fund the construction of the Gorgon and Wheatstone Projects, fund Chevron Australia's existing operations and also to refinance existing funding arrangements.
- In the year ended 31 December 2010 \$265 million in interest was paid to Chevron Australia's wholly-owned US subsidiary under earlier funding arrangements which are currently subject to Federal Court proceedings.
- Chevron Australia also paid interest totalling \$7 million to another US affiliate in the year ended 31 December 2010.
- In accordance with the Australia-US double taxation treaty, interest withholding tax totalling \$430 million has been paid to the ATO in relation to interest amounts payable in the years ended 31 December 2010 to 31 December 2014.
- Chevron Australia's debt levels complied with the thin capitalisation rules for all relevant years and interest deductions are supported by transfer pricing documentation which has been provided to the ATO in relation to the years ended 31 December 2013 and 31 December 2014.
- The ATO is currently undertaking an audit in relation to our funding arrangement with our immediate parent for the years ended 31 December 2009 to 31 December 2013. The audit is currently in the information/document gathering phase.

<b>Corporate, IT, Insurance, Technical Services &amp; Other (A\$ millions)</b>						
<b>Jurisdiction</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>TOTAL</b>
US	\$156	\$160	\$162	\$262	\$346	<b>\$1,086</b>
Singapore	\$23	\$5	\$29	\$39		<b>\$96</b>
UK	\$14					<b>\$14</b>
Italy			\$7			<b>\$7</b>
China				\$7	\$3	<b>\$10</b>
						<b>\$1,213</b>
Number of related parties	4	2	3	3	3	

- Chevron Australia's US affiliates provide corporate services, IT support, insurance and technical services beyond and in addition to resources and capabilities we have in Australia. These arrangements are primarily priced on a cost reimbursement basis with some priced on a cost plus basis.
- Chevron Australia's Singapore affiliates provide corporate, LNG market analysis, software and IT support services beyond and in addition to resources and capabilities we have in Australia and the supply of additives. These arrangements are priced on a cost plus basis.

- Amounts paid to affiliates in the UK relate to project engineering services. These arrangements are priced on a cost reimbursement basis.
- Amounts paid to affiliates in Italy relate to technical oversight services in relation to assets being fabricated in Italy by third parties for the Gorgon and Wheatstone Projects. These arrangements are priced on a cost plus basis.
- Amounts paid to affiliates in China relate to technical oversight services in relation to assets being fabricated in China by third parties for the Gorgon and Wheatstone Projects. In 2014 this amount was lower than \$5 million but we have provided this detail as the value transfer was disclosed for the prior year. These arrangements are priced on a cost plus basis.

<b>Shipping (A\$ millions)</b>						
<b>Jurisdiction</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>TOTAL</b>
Bermuda	\$52	\$57	\$71	\$60	\$69	<b>\$309</b>
Singapore					\$20	<b>\$20</b>
						<b>\$ 329</b>
Number of related parties	1	1	1	1	2	

- Amounts paid to Chevron Australia's affiliate in Bermuda relate to the transport of LNG cargoes from the NWSV. This entity is owned equally (in one-sixth shares) by all foundation participants in the NWSV.
- Amounts paid to Chevron Australia's affiliate in Singapore relate to the obligations and commitments to provide LNG shipping services to the Gorgon Project.

<b>Marketing Services (A\$ millions)</b>						
<b>Jurisdiction</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>TOTAL</b>
Singapore	\$0.6	\$0.4	\$0.5	\$0.4	\$0.5	<b>\$2.4</b>
UK	\$5	\$5				<b>\$10</b>
Japan				\$5	\$3	<b>\$8</b>
						<b>\$20</b>
Number of related parties	2	2	1	2	2	

- A marketing services fee is paid to Chevron Australia's Singapore affiliate in relation to crude oil and condensate sales. Notwithstanding that these amounts were less than \$5 million in all relevant years we have disclosed these amounts as we understand they are specifically relevant to the Committee's request. The ATO completed an audit of this arrangement in 2013 and advised that no further action would be taken at the time.
- A marketing services fee is paid to Chevron Australia's Singaporean affiliate in relation to LPG sales. Notwithstanding that these amounts were less than \$5 million in all relevant years we have disclosed these amounts as we understand they are specifically relevant to the Committee.
- Amounts paid to affiliates in the UK relate to the marketing of LNG to be produced from the Gorgon Project. These arrangements are priced on a cost plus basis.

- Amounts paid to affiliates in Japan relate to the marketing of LNG to be produced from the Gorgon and Wheatstone Projects. In 2014 this amount was lower than \$5 million but we have provided this detail as the value transfer was disclosed for the prior year. These arrangements are on a cost plus basis.

**Dividends Paid**

<b>Dividends Paid (A\$ millions)</b>						
<b>Jurisdiction</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>TOTAL</b>
US	\$1,195					<b>\$1,195</b>
Number of related parties	1					

- Chevron Australia paid dividends to its immediate parent in the year ended 31 December 2010. In accordance with the Australia-US double taxation treaty, no dividend withholding tax was required to be remitted to the ATO in respect of these payments.

### **APPENDIX III**

#### **Chevron International Gas Inc (Australian Branch) - Related Party Transactions**

Chevron International Gas Inc (Australian Branch) has not had a transaction type with related foreign affiliates with a cumulative value of \$5 million or more in any single year.