



Andy Holmes

Chief Operating Officer, Fuels Asia Pacific and Air BP
President BP Australia and New Zealand

BP Australia Pty Ltd
A.B.N. 53 004 085 616

717 Bourke Street
Docklands Vic 3008

Tel: +613 9268 4111
www.bp.com

29 July 2015

Senator the Hon Sam Dastyari
Committee Chair
Senate Economics References Committee

Dear Senator,

**Senate Economics References Committee
Corporate Tax Avoidance Inquiry**

We are writing in response to your email dated 10 July 2015 requesting a submission on the relationship between BP's Australian operations and associated operations in foreign jurisdictions, particularly Singapore. We are pleased to be able to contribute to the Committee's Inquiry.

Our submission begins with an overview of the global BP group and BP in Australia before moving to respond directly to the three items in your 10 July 2015 letter.

1. Overview

About BP Globally

BP is one of the world's leading integrated oil and gas companies. We aim to create long-term value for shareholders by helping to meet growing demand for energy in a safe and responsible way. We strive to be a world-class operator, a responsible corporate citizen and a good employer. Through our work we provide customers with fuel for transportation, energy for heat and light, lubricants to keep engines moving and the petrochemicals products used to make everyday items as diverse as paints, clothes and packaging. Our projects and operations help to generate employment, investment and tax revenues in countries and communities across the world. We employ around 85,000 people. As a global group, our interests and activities are held or operated through subsidiaries, branches, joint arrangements or associates established in – and subject to the laws and regulations of – many different jurisdictions. The UK is a centre for trading, legal, finance, research and technology and other business functions. We have well-established operations in Europe, North and South America, Australasia, Asia and Africa. As a founding member of the Extractive Industries Transparency Initiative (EITI) and an alternate member of the initiative's board, BP supports and works on transparency of revenue flows in resource rich countries.

BP in Australia

BP has worked in Australia since 1919 and is proud of the contribution we make to the community and the tax system which supports it. Today, we're involved in a range of activities, such as exploring for natural gas and crude oil. We also refine crude oil at our refinery in Kwinana, Western Australia and we market petroleum products and Castrol lubricants across Australia.

We also have a network of some 1300 service stations throughout Australia, including a number of 24-hour truckstops on the country's major highways. BP over the last five years has the following numbers of employees in Australia and has also maintained the following total investments (based on historical cost).

Average per annum over last 5 years	
Headcount	
Employees	7,342
Position (AUD \$m)	
Total Assets	13,926

BP Australia's current exploration and production activities include BP's interests in the North West Shelf Venture as well as the proposed Browse LNG Project and other gas fields at various stages of development off the WA coast. We have also recently begun exploration activity in the Great Australian Bight. BP's end to end supply chain in Australia is straightforward. In Upstream our share of production of North West Shelf is exported predominantly via a domestic jointly owned marketing company, North West Shelf Australia LNG Pty Ltd. In Downstream product refined from our domestic refineries is predominantly sold domestically to meet local demand.

BP as a taxpayer

We recognise that the taxes that we pay are a significant part of our economic contribution to the countries in which we operate. BP's values of safety, respect, excellence, courage and one team align explicitly with BP's code of conduct. These values, which guide BP's business activities, also guide BP's conduct in respect to complying with local tax laws in all of the countries that BP conducts business activities. BP intends to manage its tax responsibilities such that BP complies with the tax laws in a fully responsible manner; and engages with tax authorities in honest, constructive and transparent relationships based on principles of mutual respect.

This is evident in Australia. BP has an Annual Compliance Arrangement (ACA) with the Australian Taxation Office (ATO) which covers indirect taxes such as GST and excise tax. Moreover, BP's rating as a "key taxpayer" for income taxes recognizes that BP is a significant and important contributor to the tax system in Australia and also has a good compliance history with the ATO.

The following table provides an overview of some of the more material taxes paid and collected by BP over the past 5 years. Income tax payments alone exceeded \$2.2 Billion over the past 5 years. Also BP Australia's effective tax rate has averaged 28.4% over the past 5 years.

Average per annum over last 5 years (AUD \$m)	
Summary of taxes	
Taxes Paid	
Income Tax	448
Other Taxes Remitted	
Upstream Production Taxes	375
Downstream Excise	4,129
GST	1,596
Average total remitted per annum	6,597

Please refer to a detailed summary of financials over the last 5 years in Appendix A.

2. Comments on specific points

The Committee has asked for comment on three points which we respond to below.

2.1 How BP is related to any operations in foreign jurisdictions, either directly or through a parent company

The BP Australia group of companies are subsidiaries of the BP Plc group. There are no controlled foreign companies held by the BP Australia group. A simplified BP Group structure noting the major entities in Australia is set out in Appendix A. The dual US UK ownership of BP Australia Group is a result of legacy transactions including major acquisitions by BP of the US multinationals Amoco and Arco.

2.2 Structure of the BP Group (subsidiaries related to Australian operations, and where these subsidiaries are located)

The main foreign BP legal entities that the BP Australia group has operational relationships with are as follows:

Entity	Country of incorporation
BP Singapore Pte. Limited	Singapore
BP Australia Swaps Management Limited	United Kingdom
BP International Limited	United Kingdom
BP Plc	United Kingdom
Castrol Limited	United Kingdom
BP Oil UK Limited	United Kingdom
BP Shipping Limited	United Kingdom
BP Oil New Zealand Limited	New Zealand
BP Oil International Limited	United Kingdom

The above entities are all related to BP Australia due to being indirectly or directly owned by the same ultimate parent company BP Plc.

We note the Committee's particular interest with Singapore.

BP Singapore started as an oil refining and marketing company in 1966 and has since evolved to become a leading oil trading hub for BP in the Eastern Hemisphere given Singapore's strategic geographical location as an oil trading hub in the region, its political stability and world class commercial infrastructure. BP Singapore's principal activities are trading in petroleum products, chartering and operation of vessels and related activities. BP Singapore employs around 700 people.

The oil trading business within BP Singapore is Integrated Supply and Trading ("IST"). IST has offices in London, Singapore, Chicago and Houston. IST Eastern Hemisphere ('IST-EH') covers South and East Africa, Middle East and Asia Pacific markets. That is, as a country Singapore is the regional hub for Eastern Hemisphere oil trading and shipping industry; our *trading* operations in Singapore are different to, and not, *marketing hubs* as such.

BP maintains trading and ship chartering hubs in London, Singapore and Chicago in order to cover the world 24 hours a day. For over 15 years, BP Singapore has managed the supply of ships required in the Eastern Hemisphere, including supply to BP Australia.

The Singapore chartering team meets BP Australia's shipping requirements by sourcing ships which meet BP's stringent safety requirements for each cargo into or around Australia. BP Australia maintains a small operational / technical team to manage local operations. Both BP's owned and third party vessels are chartered at market rates. Vessels compete against each other for BP cargoes, which ensure competitive rates for the Australian business. In our comments at 2.3 below we provide further details of the nature of IST trading activity in Singapore together with an explanation of the operational relationships that BP Australia group of companies have with the legal entities noted in the table above.

2.3 The value of transfers between related operations and an explanation of the flows of money between those subsidiaries and the Australian operations.

The most significant of BP Australia's international related party transactions are:

- **Crude and product purchases** from BP Singapore (representing approximately 90% of all related party transactions);
- **Financing**, principally provided by BP in the UK;
- **Support services** principally provided by BP in the UK; and
- License of **brands** (ie BP and Castrol) owned by BP in the UK

BP's policy is that all related party transactions occur on arm's length terms in a manner consistent with OECD principles and abiding by the laws of the countries in which the transactions occur. Moreover, our Country businesses survive in terms of Group support for investment capital on their ability to generate profit and cash consistently. This means that local businesses are not judged on their ability to shift profits or manipulate pricing in any way. The downstream business in Australia does not report together with the IST business in Singapore. They are distinct and very different businesses.

We have set out below some further details of these more material related party transactions between the BP Australia group and other BP group companies.

Crude purchases from BP Singapore

As mentioned above, the BP Australia group operates the refinery at Kwinana (and until recently also operated the refinery at Bulwer Island in Queensland). BP Australia Pty Ltd ("BP Australia") purchases crude oil and finished products from BP Singapore Pte Ltd ("BP Singapore"). The crude oil is used as a feedstock in BP's two Australian refineries. Finished products from these purchases and from the refineries are used by BP Australia's retail and marketing sites in Australia.

The value of these crude purchases ranges between \$9 billion to \$13 billion pa in gross terms over the last 5 years. BP Australia imports ~75 million barrels of crude each year which equates to 108 cargoes. BP Singapore manages transportation. Of cargoes sent to Kwinana and Bulwer island refineries ~70-80% are acquired from 3rd parties by BP Singapore and ~20-30% from the Group's equity crude. Whether BP Singapore purchases equity crude from the Group or 3rd party crude for BP Australia, pricing is consistent. BP Australia pays a market price for crude and product. Unlike other commodities, crude oil is the world's most commonly traded commodity. Pricing information is readily available. It is a very deep and liquid market. Prices are published. BP's oil trading is in Singapore because that is where the market is.

The average net profit margin (i.e. profit before tax / sales) of BP Singapore over the last 5 years is 0.2%. This average return is low which recognizes that ~65% of BP Singapore's business is with 3rd parties and trading is high risk. In fact in one year BP Singapore returned a loss in excess of \$100m. This demonstrates that BP Australia is not allocating profit to Singapore or any other country.

Over the last five years, BP in Australia paid on average, approximately \$200m in shipping costs to BP in Singapore.

Financing

- (i) **Dividends** – The average dividends paid by the Australia group over the last five years was \$868 million. No dividends were paid in 2013 and 2014.
- (ii) **Funding** - The BP Australia group has made significant investments in Australia. In recent years we have invested over a \$1bn in upstream projects including the North Rankin B platform (North West Shelf), evaluating the onshore development concept for Browse at James Price Point (which was ultimately abandoned) and seismic surveys over our Great Australian Bight exploration licences. In Downstream we have invested more than \$50m to date constructing a Jet terminal at Bulwer Island in Brisbane and are continually investing to improve our retail sites across the nation. BP Australia funds these activities through a variety of sources and by using a commercially appropriate mix of debt and equity. BP Australia's long term debt funding is currently provided by related parties in the UK. All financing arrangements are on arm's length terms and BP has made full disclosures of these transactions to the ATO. Where BP Australia has refinanced its debt, this has resulted in a lower cost of funding for BP Australia. BP has maintained funding levels below the thin capitalisation threshold calculated in accordance with Australia's income tax laws over the last five income tax years. Over the last five years BP Australia had financing costs averaging \$404million and interest receipts averaging \$72million per annum. Interest withholding tax of 10% is also remitted to the ATO in relation to the interest paid on debt.

Services

Various services are provided by the BP group to affiliates in other countries. The main services relevant to BP Australia are those from the UK. These are wide ranging and include various central functions, including finance and IT. All services occur on an arm's length basis and the charging is certified annually. Over the last five years BP Australia has paid on average \$154 million for services from the UK, and received \$16million for services it has provided. The ATO has recently reviewed all services arrangements between BP Australia and other BP affiliates, and has not sought to make any adjustments to the charges.

Brands

The BP brands are valuable assets. The BP brand and logo are legally owned by BP p.l.c., and are licensed to operating affiliates around the world in return for arm's length royalties. As the brand owner, BP p.l.c. is responsible for a range of brand management functions including protection of the brand and trademark, development and maintenance of the brand attributes and personality and global positioning of the brand. Similarly, a significant proportion of products and services are marketed under the Helios and Castrol brands and BP Australia pays an arm's length royalty in respect of its license of these assets.

Over the last five years, the BP Australia group paid on average approximately \$32 million per annum in arm's length royalties.

We trust this submission addresses the Committee's areas of interest.

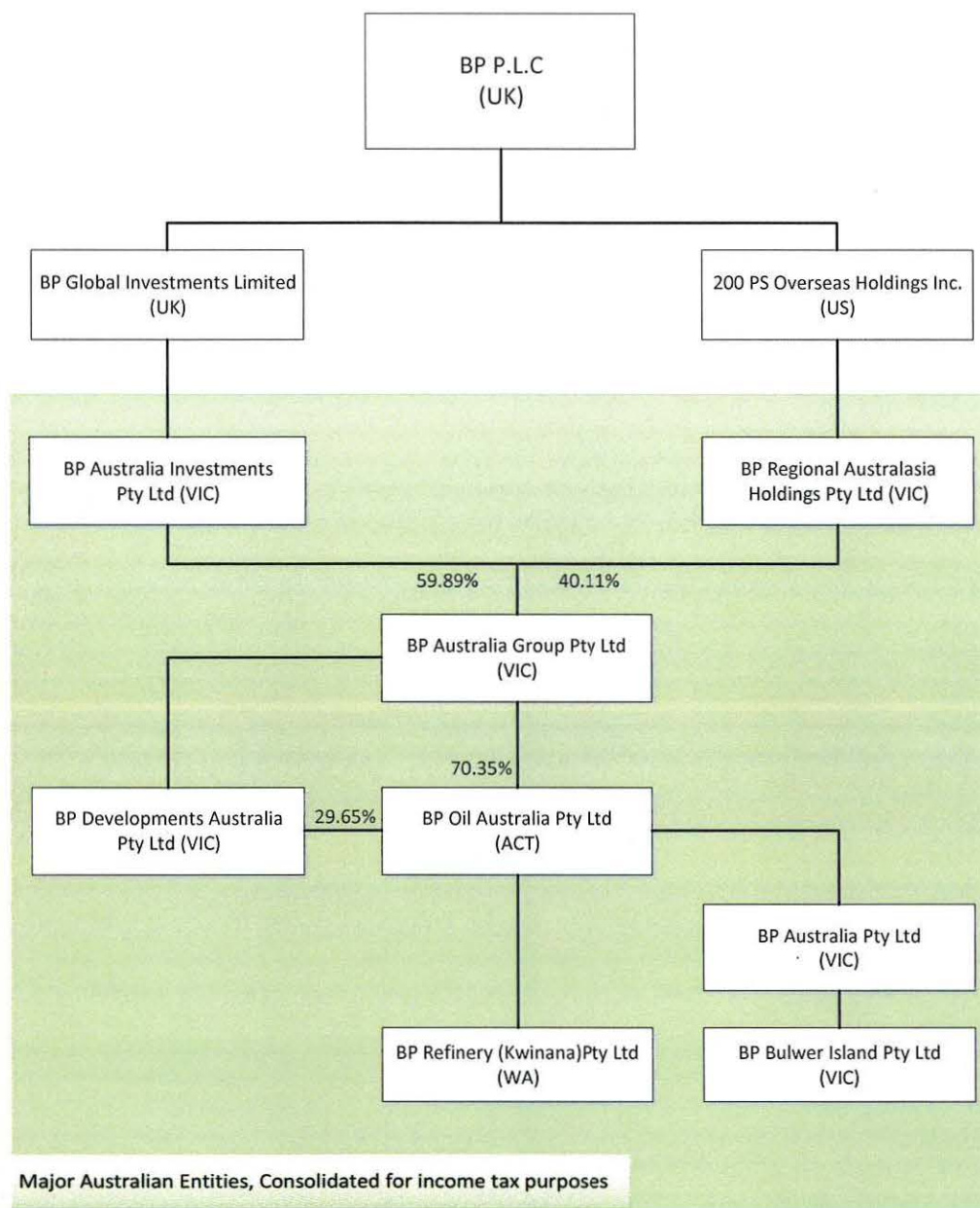
Yours sincerely

Andy Holmes

BP Australia Group Financials

	2010	2011	2012	2013	2014
Headcount					
Employees	7,768	7,463	7,640	7,213	6,624
Position (AUD \$m)					
Total Assets	11,966	13,841	12,466	14,948	16,411
Performance (AUD \$m)					
Turnover	17,199	21,320	23,061	22,579	22,499
Expenditure	(15,649)	(19,687)	(22,130)	(21,661)	(22,212)
Accounting Profit Before Tax	1,550	1,633	931	918	286
Tax Charge	(490)	(408)	(279)	(230)	(86)
Cash Tax Rate	36%	33%	43%	56%	81%
Effective Tax Rate	32%	25%	30%	25%	30%
Taxation (AUD \$m)					
Taxable Income*	1,884	1,793	1,570	1,853	1,128
Tax paid	565	537	397	512	231
Other Taxes collected and/or paid					
Upstream production taxes	371	373	376	385	372
Excise	3,772	4,026	4,170	4,326	4,352
GST	1,249	1,552	1,716	1,704	1,757
Payroll Tax	19	19	22	23	25
Fringe Benefits Tax	5	5	4	6	7
Total of Other Taxes	5,415	5,974	6,288	6,445	6,513
					30,635
BP Plc Group Performance (USD \$b)					
Accounting Profit Before Tax (USD \$b)	(5.31)	38.23	18.13	30.22	4.95
Tax Charge (USD \$b)	1.64	(12.62)	(6.88)	(6.46)	(0.95)
Effective Tax Rate	31%	33%	38%	21%	19%

* Taxable income is derived from accounting profit before tax adjusted for differences required for tax purposes



Note: simplified to show main entities only. All Australian companies are part of a consolidated group for income tax purposes.