



RESEARCH NOTE

Number 29, 2000–01
ISSN 1328-8016

Crude Oil Excise and Royalties

The rise in fuel prices has stimulated interest in the taxation of crude oil¹ produced in Australia. Commonwealth revenues from crude oil consist of excise,² royalties and the petroleum resource rent tax (PRRT).³ This Research Note was written to help Members of Parliament understand the crude oil excise/royalties regime and complements an earlier Research Note on the PRRT.⁴

Constitutional Framework

Taxation of petroleum reflects the constitutional division of responsibility between the Commonwealth and the States.

Offshore projects are located outside the three nautical mile boundary and so fall within the Commonwealth's jurisdiction. Offshore projects incur either the PRRT or crude oil excise and royalties.⁵ The PRRT applies to offshore projects (principally Bass Strait) except the North West Shelf.⁶ The Commonwealth levies crude oil excise and a royalty on the North West Shelf. Nearly 70 per cent of production not subject to the PRRT is from the North West Shelf (Wanaea/Cossack). The Commonwealth shares the royalty with Western Australia.

Coastal waters projects lie between the low tide water mark and the three nautical mile boundary. Coastal water projects are subject to the crude oil excise and State royalties, which the State shares with the Commonwealth.

Onshore projects are land-based. They are subject to the crude oil excise⁷ and State royalties.

Rationale for the Excise

The Whitlam Government introduced the crude oil excise in August 1975 to redistribute to the community some of the gains producers received from increased world prices. Subsequent determination of the level of excise has sought to balance the return to the community against the need to ensure incentives remained for companies to explore for and produce oil in Australia. To ensure adequate incentives, excise rates have been adjusted from time to time. For example, on 23 October 1984, the Government announced that it would introduce arrangements to encourage development of fields that had not been developed because of inadequate returns under the 'old' oil

excise scale. These fields became eligible for concessional treatment under the new 'intermediate' excise scale.

Pump and Producer Prices

The crude oil excise (like the PRRT and royalties) does not affect pump prices or the prices that producers receive. But the excise is in effect a tax on profits and so reduces producers' returns. The world oil market sets the prices producers receive. The Hawke Government effectively ended import parity pricing of crude oil (which the Fraser Government introduced in the 1978–79 Budget) when it fully deregulated domestic crude oil supply and marketing arrangements on 1 January 1988. Since then, prices of domestic crude oil have reflected world market prices.⁸

Table 1: Crude Oil Excise

Annual sales	Old oil*	Intermediate**	New oil***
	%	%	%
Megalitres#			
0 to 50	0	0	0
Over 50 to 100	5	0	0
Over 100 to 200	15	0	0
Over 200 to 300	20	0	0
Over 300 to 400	40	15	0
Over 400 to 500	70	30	0
Over 500 to 600	75	50	10
Over 600 to 700	75	55	20
Over 700 to 800	75	55	30
Over 800	75	55	35

Source: Australian Taxation Office, Taxation Statistics 1998–99, p. 139.

* Oil discovered before 18 September 1975.

** Oil discovered before 18 September 1975 but not developed as of 23 October 1984.

*** Oil produced from naturally-occurring discrete accumulations discovered on or after 18 September 1975.

A megalitre is a million litres.

Excise Imposition

Excise is levied under the *Excise Tariff Act 1921* and the *Petroleum Excise (Prices) Act 1987*. The basis on which excise is levied is the volume-weighted average (VOLWARE) of sale prices. Excise rates are expressed as a percentage of VOLWARE, and depend on whether oil is 'old', 'intermediate' or 'new'. The first 4 770 megalitres (30 million barrels) from each project are excise-free. Thereafter, rates rise with annual volume (Table 1).

Royalties

The Commonwealth royalty on the North West Shelf is levied under the *Petroleum (Submerged Lands) (Royalty) Act 1967* and is shared with Western Australia under section 129 of the *Petroleum (Submerged Lands) Act 1967*.⁹ The Commonwealth generally does not receive royalties from onshore projects because mineral rights are vested in the States. But under the Offshore Constitutional Settlement, the Commonwealth receives four percentage points of the royalty revenue Western Australia receives from a number of developments located in coastal waters.¹⁰ The

Table 2: Revenue from petroleum taxation 1995–96 to 2000–01 (\$m)

	1995–96	1996–97	1997–98	1998–99	1999–00	2000–01
Petroleum products*	10 224	10 543	10 895	10 974	11 199	12 633
Crude oil	13	9	16	31	219	259
PRRT	791	1 308	907	419	1 205	1 760
Royalties	198	287	323	246	492	na

* Data for 2000–01 estimated. na: not available.

Sources: Budget paper No. 1, 2000–01, p. 5–30; Taxation Statistics 1998–99; MYEFO 2000–01; Department of Industry, Science and Resources.

Commonwealth also shares royalty revenue from Barrow Island in Western Australia. Under the *Petroleum Revenue Act 1985*, Commonwealth excise may be waived if a State imposes a resource rent royalty (RRR) on petroleum produced within the State's jurisdiction and enters a revenue-sharing agreement with the Commonwealth. The Commonwealth receives 75 per cent of RRR revenue from Barrow Island.

Revenue Comparison

Revenue from excise and royalties is small compared with revenue from excise on petroleum products (Table 2). But crude oil excise and royalty revenue rose sharply in 1999–00 because of increased output and higher crude oil prices.

Richard Webb Economics, Commerce and Industrial Relations Group Information and Research Services

22 May 2001

Views expressed in this Research Note are those of the author and do not necessarily reflect those of the Information and Research Services and are not to be attributed to the Department of the Parliamentary Library. Research Notes provide concise analytical briefings on issues of interest to Senators and Members. As such they may not canvass all of the key issues. Advice on legislation or legal policy issues contained in this paper is provided for use in parliamentary debate and for related parliamentary purposes. This paper is not professional legal opinion.

© Commonwealth of Australia

1. Section 4 of the *Petroleum Excise (Prices) Act 1987* defines crude oil as stabilised crude petroleum oil.
2. Crude oil excise should not be confused with the excises on petroleum products, notably petrol and diesel.
3. The Commonwealth also receives company tax on oil producers.
4. See 'Petroleum Resource Rent Tax', *Research Note*, no. 20, Department of the Parliamentary Library, 2000–01 at <http://www.aph.gov.au/library/pubs/rn/2000-01/01RN20.htm>
5. LPG used to be subject to excise but is now exempt.
6. Exploration permit areas WA-1-P and WA-28-P. The North West Shelf is subject to excise because planning for the LNG plant was on the basis of the crude oil/LNG excise regime in place before the PRRT was introduced.
7. Currently, no excise is collected from onshore production.
8. The ability to trade oil internationally ensures that domestic prices reflect international prices since differences between the two prices would result in imports or exports as the case may be. For further information see: <http://www.accc.gov.au/media/mediar.htm>
9. The royalty is levied as a percentage of the wellhead value with the rate depending on the size of the area covered by the production licence.
10. The developments are Harriet, South Pepper/North Herald/Chervil and Saladin/Yammaderry/Cowle.