



Australian Government

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Senator Sean Edwards
Senate Economics Committee
PO Box 6100
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Dear Senator

Budget Estimates Hearings – 3 June 2014 – Additional Information

The Department of Industry appeared before the Senate Standing Committee on Economics at the Budget Estimates Hearings on 2-3 June 2014.

During the hearings, Senator the Hon Alex Gallacher asked, 'What are the implications for the petroleum resource rent tax?' with reference to the Browse project. The Department of Industry responded, 'The simple implication is that, if there turns out to be less gas in Commonwealth leases that is, in the end, developed – and we are still a long way from actually having a development there – the PRRT will be calculated on the Commonwealth amounts and state royalties will be calculated on the state amounts. The relevant excerpt from the Proof Hansard is at Attachment A.

To provide the Committee with a more comprehensive understanding of the taxation arrangements that would apply to the Browse project, the Department of Industry would like to elaborate on the response provided.

On 1 July 2012, the petroleum resource rent tax (PRRT) was extended to all Australian onshore and offshore oil and gas projects. The PRRT would therefore apply to production from the entire Browse project, regardless of whether that production draws from a petroleum field that lies wholly or partly within Commonwealth or Western Australian (WA) jurisdiction.

The Australian Government does not apply crude oil excise to projects in Commonwealth waters, but does apply it to eligible crude oil and condensate production from coastal waters, onshore areas, and the North West Shelf project area. As such, the crude oil excise would apply to the agreed portion of the Browse project within WA's jurisdiction. The first 4767.3 mega litres (30 million barrels) of stabilised crude and or condensate from a particular field and a subsequent quantity of annual production is free of excise. Excise is payable once the initial excise-free quantity produced by a field is exceeded and the rate of production exceeds the annual excise-free limit.

The WA government's royalty regime would also apply to production from the agreed portion of the Browse project within WA's jurisdiction. To avoid double taxation, royalty and crude oil excise payments would be deductible before calculating any PRRT liability.

We understand that Hansard is a formal transcript of proceedings and cannot be altered. However, I request this revised information be made available to Committee members to ensure they have a more comprehensive understanding of the taxation arrangements that would apply to the Browse project.

If you require any further information in regard to this matter, please do not hesitate to contact me.

Yours sincerely

Bruce Wilson
A/g Deputy Secretary
10 July 2014

Senator Ronaldson: They were here yesterday. The officers will answer what they can, but if you have got more detailed, technical questions then, as I am sure you will understand, we will take them on notice.

Senator GALLACHER: Thank you very much, Minister. I do not have any more detailed, technical questions. I just wanted to get my understanding of the issue up to speed.

Senator Ronaldson: I was just trying to be helpful, and I always am.

Senator GALLACHER: The officials were being more help. The Western Australian Minister for Mines and Petroleum, Mr Marmion, has been quoted as saying:

We are now working closely with the federal government to determine WA's share of the Browse field and its exact implications.

Can you tell us what stage these negotiations are up to?

Mr Hoffman: Demus, do you want to talk about those discussions?

Mr King: We are continually working with NOPTA, the National Offshore Petroleum Titles Administrator, and the Department of Mines and Petroleum in WA to work through what this actually means. The communication is multiple times per week as we work through what exactly needs to happen to determine both the geological location of the resources and the state-Commonwealth boundary changes there. At this early stage we are also working with the joint venture partners to gain their understanding on those two factors as well and come to a common landing, so it is a work under progress.

Senator GALLACHER: Will these negotiations pre-empt the official redrawing of the boundaries?

Mr King: The official redrawing of the boundaries occurs when the Attorney-General's Department confirms the location and confirms the information from Geoscience Australia. That has occurred; however, it does not impact on the retention leases until those retention leases are renewed or changed.

Senator GALLACHER: Will this precipitate a reconsideration of unitisation of the Browse gas fields?

Mr King: It would. I would describe it as, rather than unitisation, an apportionment of the gas resources. That is part of the work that we are conducting with the Department of Mines and Petroleum in WA and with NOPTA to understand both the geology and the location of the boundaries.

Senator Ronaldson: I think that will ultimately be a decision of both governments. I would assume that would be the responsibility of both governments. I do not think the others can pre-empt what the outcome of those discussions are likely to be, unless I am advised otherwise.

Senator STERLE: Last week the Premier of Western Australia said he could not possibly say but he believes it is up to 65 per cent. I welcome your input to say that it should be worked out. Premier Colin Barnett is up and running. He is excited.

Senator Ronaldson: I could give you input on matters that I am aware of. Not that I disbelieve you; I am not aware of the Premier's discussion, but there is more than one party involved in this and I am sure that when both parties come to an understanding we will understand what the break-up is.

Senator GALLACHER: Until this process is finished, does the Torosa field remain within Commonwealth jurisdiction?

Mr Hoffman: Torosa field was always subject to both some state and some Commonwealth leases. It was always split. The question is just that, with this redrawing because of the new islands, more of the surface area leases will be state ones as opposed to Commonwealth ones. There will still be some Commonwealth leases across the Torosa field and more state ones now than previously.

Mr B Wilson: Just to be clear, Senator, those leases will not change until they expire at the end of the year. Those lease boundaries that are there, both the state and Commonwealth ones, currently exist.

Senator GALLACHER: The determination of retention leases under the Offshore Petroleum Greenhouse Gas Storage Act—that application will change because there has now been a discovery, at low tide, of a rock or two?

Mr Hoffman: The retention leases, as my colleague said, remain in place until their term finishes—as is. Then there will be the process of renewing, varying or cancelling those retention leases.

Senator GALLACHER: What are the implications for the petroleum resource rent tax?

Mr Hoffman: The simple implication is that, if there turns out to be less gas in Commonwealth leases that is, in the end, developed—and we are still a long way from actually having a development there—then PRRT will be calculated on the Commonwealth amounts and state royalties will be calculated on the state amounts.