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Attention: Committee Secretary
Senate Economics References Committee
Sent by email: economics.sen@aph.gov.au

30 March 2017

NWS SUBMISSION TO INQUIRY INTO CORPORATE TAX AVOIDANCE AND MINIMISATION

Recognising the significance of the matters being considered within the extended Terms of Reference (TOR) of the Inquiry into Corporate Tax Avoidance and Minimisation and noting the Federal Government's parallel Review of the PRRT (the Review), Woodside Energy Ltd on behalf of all the participants in the North West Shelf (NWS) Project submit the attached NWS submission to the Review, for the Committee's consideration.

Woodside recognises that individual NWS Project participants may also submit their own corporate submissions to the Inquiry.

The Woodside-operated NWS Project is Australia's largest operating oil and gas development, representing an investment of more than $34 billion, and is one of the world's largest producers of LNG. The NWS Project has made a substantial tax contribution to Australia. Since first gas production in 1984, the NWS Project participants have paid in excess of $26 billion of royalties, excise and taxes on revenues from the venture.

In 2012, the PRRT regime was extended to include the NWS Project and onshore petroleum projects. As part of this extension of the PRRT regime, certain transitional arrangements were enacted to ensure the NWS Project, and indeed all transitioning projects, were fairly transitioned into the regime. These transitional arrangements, which were subject to extensive consultation with the Government, recognised the substantial capital investment made in the NWS Project over the last 30 years, and the significant federal royalties and excise paid. The transition arrangements were also critical in preventing the retrospective application of the extended PRRT.

Since the inception of the NWS Project, the primary resource taxes paid have been royalties and excise. The existing royalty and excise regimes continue to operate alongside the PRRT regime and the royalties and excise paid by the NWS Project participants are effectively creditable against any PRRT liability that may be payable. Consequently, it is expected that royalties and excise will continue to be the primary resource taxes paid in relation to the NWS Project.

I trust that this submission will be of assistance in the course of your Inquiry.

Yours sincerely

[redacted]

Brad Russell-Lane

Chief Executive Officer
North West Shelf Project

Attachment – NWS submission to PRRT Review

North West Shelf Project

Submission to PRRT Review

Woodside Energy Ltd
(As operator of the North West Shelf Project)

8 February 2017

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1. Introduction

This submission is made to the Australian Government's Review of the Petroleum Resources Rent Tax (PRRT) by Woodside Energy Ltd on behalf of all the participants in the North West Shelf Project (NWS Project). Woodside holds ownership and operator interests in the NWS Project.

The six participants in the NWS Project are:
- BHP Billiton Petroleum (North West Shelf) Pty Ltd
- BP Developments Australia Pty Ltd
- Chevron Australia Pty Ltd
- Japan Australia LNG (MIMI) Pty Ltd
- Shell Australia Pty Ltd
- Woodside Energy Ltd (Operator).

The China National Offshore Oil Corporation (CNOOC) is also a participant in the NWS Project but does not have an interest in its infrastructure.

Woodside recognises that individual NWS Project participants may also submit their own corporate submissions.

2. Executive Summary

The Woodside-operated North West Shelf (NWS) Project is Australia's largest operating oil and gas development, representing an investment of more than $34 billion, and is one of the world's largest producers of LNG.

The NWS Project has made a substantial tax contribution to Australia. Since first gas production in 1984, the NWS Project participants have paid in excess of $26 billion of royalties, excise and taxes on revenues from the venture.

The NWS Project is the largest single supplier of domestic gas in Western Australia (WA). Having met its previous commitment to the WA Government, exceeding the committed supply of 5,064 petajoules of gas to the domestic market between 1984 and 2013, in 2014 the NWS joint venture entered into a new domestic gas commitment, equivalent to approximately 100 terajoules per day of additional gas for the domestic market - about 10 per cent of the current supply.

The NWS Project has a proven track record with more than 30 years of safe and reliable operations, making it an attractive option for third-party gas owners looking to commercialise their resources. Through the delivery of more than 4000 LNG cargoes since 1989, the NWS Project has earned an international reputation as a leading exporter to customers in the Asia Pacific region and globally.

Woodside is a major employer in WA and, as operator of the NWS Project, currently employs more than 1000 people at the Karratha Gas Plant (KGP) onshore operations, offshore operations and in Perth to support NWS Project activities. After more than 30 years of operation, the NWS Project participants are focused on maximising value from this world-class asset by delivering sanctioned projects to extend plateau production.

The NWS Project participants are subject to a unique and complex set of taxation, royalty and excise arrangements (including corporate income tax, royalty and excise), which have been in place since inception of the Project. Since 2012, the NWS Project has also been subject to the PRRT regime, with recognition given to significant royalties and excise already paid.

The NWS Project places a high value on fiscal stability and predictability and will seriously assess any changes to the fiscal settings in any upcoming extension and optimisation decisions. This includes the future utilisation of capacity in existing infrastructure by other resource owners that may otherwise allow for the optimal commercialisation of stranded hydrocarbons.

Any change to the current fiscal settings that impact the NWS Project also has the potential to negatively impact on the Australian economy and could jeopardise future regional jobs related to the project.

3. Overview of the NWS Project

The Woodside operated NWS Project facilities constitute Australia's largest oil and gas development and represent an investment of more than $34 billion.

The NWS Project is a joint venture between six major international companies and accounts for more than one third of Australia's oil and gas production. It is one of the world's largest liquefied natural gas (LNG) producers, supplying oil and gas to Australian and international markets from large scale offshore gas, oil and condensate fields in the Carnarvon Basin off the North West coast of Australia.

The NWS Project has been the premier supplier of domestic gas to WA markets since 1984 and has delivered more than 4000 LNG cargoes since 1989 with an international reputation for the safe and reliable delivery of LNG to customers in the Asia Pacific region and other parts of the world. The NWS Project also produces liquefied petroleum gas (LPG), oil and condensate (a light crude oil for international energy markets).

The NWS Project continues to invest in its long-term future, pursuing new opportunities through operational excellence and investing in existing operations. The NWS Project is an iconic Australian oil and gas project that has contributed a significant number of jobs, substantial investment and economic growth over decades in our country. A stable and transparent fiscal environment has facilitated that contribution.

The NWS Project's offshore and onshore facilities are operated by Woodside. Hydrocarbons extracted offshore are transported via two subsea pipelines to the onshore KGP. KGP is operated as an integrated system capable of processing:

- LNG for international export;
- domestic pipeline natural gas (domgas) for supply to WA;
- LPG; and
- condensate (a by-product of natural gas).

<u>Karratha Gas Plant</u>

Located 1,260 kilometres north of Perth, Western Australia and covering approximately 200 hectares, the KGP includes five LNG processing trains, WA's largest domestic gas plant, six condensate stabilisation units, three LPG fractionation units as well as storage and loading facilities for LNG, LPG and condensate.

One of the most advanced integrated systems in the world, the KGP has the capacity to produce:

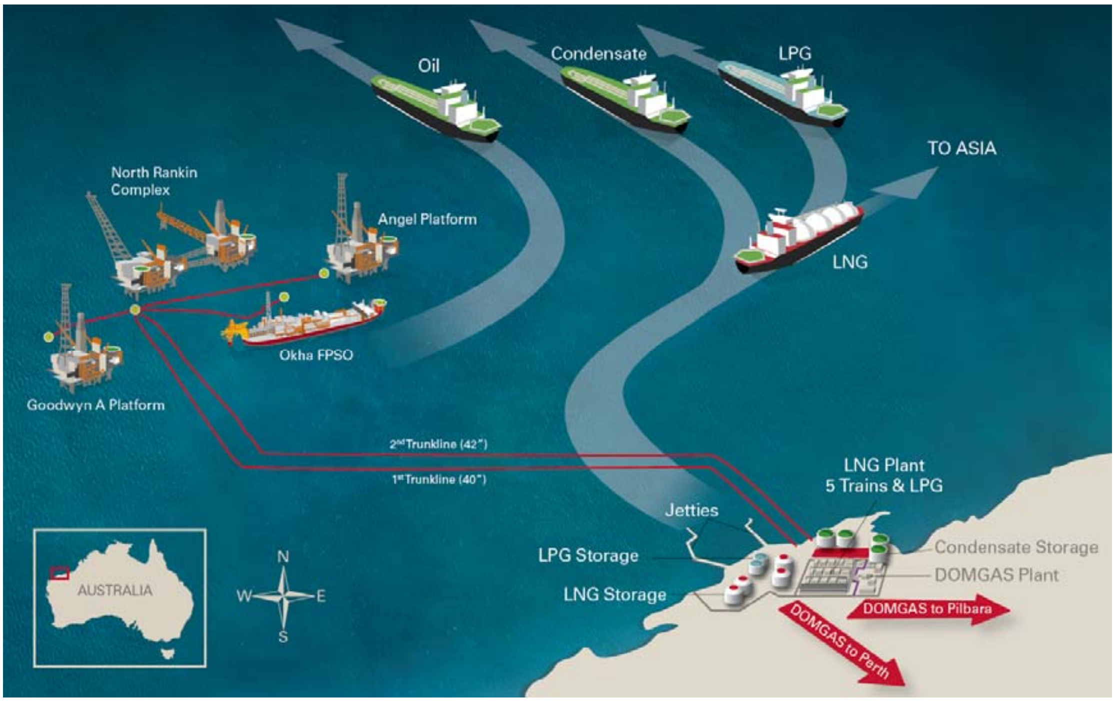
- Domestic gas 12,000 tonnes/day
- LNG 52,000 tonnes/day
- LPG 4,200 tonnes/day
- Condensate 165,000 barrels/day.

<u>Offshore facilities</u>

The NWS Project's offshore gas production facilities include the North Rankin Complex, Goodwyn A and Angel platforms. Hydrocarbons from the offshore production facilities are transported to the KGP processing by two subsea pipelines, also known as trunklines. Crude oil from the Cossack, Wanaea, Lambert and Hermes (CWLH) fields in the Carnarvon Basin is processed on the Okha floating production storage and offloading facility (FPSO).

Following processing, LNG is exported overseas. Domestic gas is supplied to the Dampier to Bunbury Natural Gas Pipeline and the Pilbara Pipeline for transportation to major mining resource companies and power generation for industry and households.

The following diagram provides a visual overview of the NWS Project's operations:



3.1 NWS Project activities

The Karratha Life Extension (KLE) Program is focused on extending the life of KGP and reducing risks to production through the delivery of a portfolio of cost-effective refurbishment scopes. KLE investment is matched to KGP's current production profile while ensuring sufficient flexibility to accommodate future decision making including opportunities to process gas from other resource owners.

Major activities undertaken in 2016 include the refurbishment of five major processing units, while a marine facilities campaign is underway and progressing to plan. In 2016, six LNG loading arms across two berths were replaced without any impact to production, with two remaining arms scheduled for completion in Q1 2017. The KLE program is approximately 25% complete and is targeting completion by 2025.

From July 2016, the NWS Project participants commenced separate marketing of uncontracted LNG and pipeline gas.

The Okha FPSO which produces oil from the CWLH fields completed a planned facility turnaround and vessel dry-docking in the first half of 2016. Subsea life extension studies to support continued operation of the CWLH infrastructure to end of field life will be undertaken in 2017.

In 2016, significant progress was made on the Persephone and Greater Western Flank Phase 2 Projects, while additional production from the Tidepole field was delivered by the Greater Western Flank Phase 1 Project. Woodside's extensive subsea development expertise is ensuring sanctioned projects are being delivered to schedule and budget.

The NWS Project participants will continue to explore opportunities to process gas from other resource owners through the existing facilities. The NWS Project has a proven track record with more than 30 years of safe and reliable operations, making it an attractive option for third party gas owners looking to commercialise their resources.

In 2017, the focus on operational and maintenance excellence and the delivery of sustainable top quartile reliability allowed the NWS Project participants to maximise value from their existing infrastructure. Cost-effective life extension activities will support ongoing operations. The efficient and effective commercialisation of existing NWS Project reserves, will be further bolstered by the completion of the Persephone Project and ongoing execution of the GWF-2 Project.

A stable fiscal environment will be supportive of many of these extension and optimisation opportunities. These are expected to contribute substantially to the wider Australian economy through operational expenditure, project investment, ongoing employment and social investment.

The NWS Project places a great deal of value on fiscal stability and any changes to the fiscal settings will impact upcoming extension and optimisation decisions.

4. NWS Project Fiscal Arrangements

The NWS Project participants are subject to a complex and unique set of royalties, excise and taxes at a number of levels in relation to their respective interests in the NWS Project. These complex arrangements have been in place since inception of the NWS Project and include the requirement to make corporate income tax, royalty and excise payments.

Corporate Income Tax

Corporate income tax is payable by each of the NWS Project participants at a rate of 30% on taxable income in relation to their respective interests in the NWS Project.

Royalty

The NWS Project participants are also subject to a federal royalty at rates ranging from 10% to 12.5% under the framework set out in the *Offshore Petroleum and Greenhouse Gas Storage Act 2006* and *Offshore Petroleum (Royalty) Act 2006*. The royalties collected are shared between the WA State and Federal Governments, and approximately 68% of the Federal royalties are paid to the State.

The royalty is levied on the wellhead value of all hydrocarbons including crude oil and condensate produced by the NWS Project. The wellhead value is derived by deducting all allowed costs incurred post wellhead from the gross value of petroleum recovered (generally the sales price) to arrive at the value of the hydrocarbons at the wellhead. Accordingly, post wellhead deductions include all of those costs incurred between the wellhead and the point of sale, including depreciation for the cost of the capital equipment above the wellhead, an allowance for a return on the cost of post wellhead capital expenditure, operating expenses and also for excise paid in relation to the sale of crude oil and condensate.

The deductions available against the sales price are subject to a deductions cap equal to 90% of the adjusted gross value for gas and 50% for oil which has resulted in the NWS Project participants paying royalty from the commencement of production.

Due to the above factors and as outlined below, the royalties paid by the NWS Project participants over the life of the NWS Project are significant, recently averaging over $1 billion annually.

Excise

The NWS Project participants are also subject to excise at a rate of up to 30%. Excise is applied to the volume weighted average realised (VOLWARE) price received by the NWS Project participants in relation to the sale of crude oil and condensate. No deductions are allowed for expenditure incurred in determining the amount of excise payable. As outlined below the payment of excise by the NWS Project participants has been significant. Payments of excise and royalty are deductible for corporate income tax purposes.

4.1 PRRT and NWS

In 2012, the PRRT regime was extended to include the NWS Project and onshore petroleum projects. As part of this extension of the PRRT regime, certain transitional arrangements were enacted to ensure the NWS Project, and indeed all transitioning projects, were fairly transitioned into the regime. These transitional arrangements, which were subject to extensive consultation with the Government, recognised the substantial capital investment made in the NWS Project over the last 30 years, and the significant federal royalties and excise paid. The transition arrangements were also critical in preventing the retrospective application of the extended PRRT.

Since the inception of the NWS Project, the primary resource taxes paid have been royalties and excise. The existing royalty and excise regimes continue to operate alongside the PRRT regime and the royalties and excise paid by the NWS Project participants are effectively creditable against any PRRT liability that may be payable. Consequently, it is expected that royalties and excise will continue to be the primary resource taxes paid in relation to the NWS Project.

5. NWS Contribution

To date, the NWS Project participants have paid in excess of $26 billion of royalties, excise and taxes on revenues from the venture.

The NWS Project injects more than $900 million a year directly into the Australian economy and with Australian businesses through payroll, operating costs and capital expenditure.

In the City of Karratha, the NWS Project participants have made significant investments in infrastructure and programs that support the social, cultural and economic capacity of the community.

Since 2008, more than $50 million has been spent on social investment and infrastructure projects in the Pilbara region.

The NWS Project has built local LNG industry capability in WA, with close to half the NWS Project's total infrastructure being sourced or manufactured in Australia since the beginning of operations. The NWS Project has a strong track record and policies to ensure full, fair and reasonable opportunity is given to Australian suppliers.

As a major employer in WA, Woodside as operator of the NWS Project currently employs more than 1000 people at the KGP onshore operations, offshore operations and in Perth to support NWS Project activities.

6. Conclusion

6.1 Key Principles

In the context of the PRRT review and in the interest of ensuring continued economic benefit to the nation's economy from the NWS Project, it is important for the review team and for the broader Australian Government to seriously consider the following:

- The NWS Project has carried a significant taxation burden since the NWS Project commenced, paying in excess of $26 billion of royalties, excise and taxes, strongly benefiting the Australian community.

- These decisions to invest significant amounts of capital have been taken based on the historical fiscal settings.

- The key question posed by the Federal Treasurer to the Review of the PRRT panel is *"to what extent is the tax operating as it was originally intended"?* The oil and gas taxes imposed on the NWS Project are operating as intended, and in particular, the operation of PRRT accords with the intention of Parliament when the regime was expanded to include the NWS Project.*[1]

- Any changes imposed on the NWS Project raise concerns of fiscal and regulatory certainty and put any future activities at risk, including the development of the remaining marginal fields within the NWS Project area, which would be affected by uncertainty or additional tax burden.

- Any changes would possibly impact the attractiveness of utilisation of existing infrastructure for other resource owners, which may otherwise allow for the optimal commercialisation of stranded hydrocarbons.

- Any changes to the current fiscal settings that impact the NWS Project have the potential to negatively impact on the Australian economy and future regional jobs related to the NWS Project.

Based on the above, it is our strong view that the NWS Project should not be subject to any change arising from the PRRT Review and that no extra tax burden should be imposed, given there is already a comprehensive regime in place. These arrangements continue to deliver Australians billions of dollars in royalties, excise and taxes.

It is important to preserve the tax treatment of the substantial existing investments made by the NWS Project and ensure that any amendments to the current fiscal regime do not adversely impact any future investment decisions.

6.2 Australian National Audit Office Report

The Review's Issues Note highlights the Australian National Audit Office (ANAO) report of 28 November 2016 to Parliament, regarding the Department of Industry, Innovation and Science's (DoIIS) administration of the NWS Project royalty system.

Woodside, as operator of the NWS Project, has robust compliance processes with regard to royalty obligations and has supported DoIIS, in the assurance review carried out by the ANAO and the 2014 NWS Project royalty audit by the Western Australian Department of Mines and Petroleum (DMP). Woodside as operator in carrying out its regular royalty compliance activities and audits with the DMP, and in supporting DoIIS in relation to its review, has and will continue to conduct itself in an open, transparent and cooperative manner.

Both the DoIIS and the DMP have stated that they believe that the royalties paid by the NWS Project have been efficiently collected and accurately assessed. The NWS Project participants continue to work with both departments going forward.

[1] * Explanatory Memorandum to Petroleum Resource Rent Tax Assessment Bill 2011