

**ExxonMobil Australia Pty Ltd**

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**Nathan Fay**  
Chairman



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Committee Secretary  
Senate Economics References Committee  
Parliament House  
Canberra ACT 2600

By email: [economics.sen@aph.gov.au](mailto:economics.sen@aph.gov.au)

Dear Committee Secretary,

ExxonMobil Australia welcomes the opportunity to provide a submission to the Senate Economics References Committee inquiry into the oil and gas industry in Australia. ExxonMobil Australia operates under the brands Esso and Mobil.

**About ExxonMobil Australia**

ExxonMobil Australia has been operating successfully in Australia since 1895. Over that time we have invested almost A\$40 billion in Australia. Over the last 50 years, our contribution to Australia out of the Gippsland Basin Joint Venture (GBJV) alone has been the production of over half of Australia's crude oil and hydrocarbon liquids.

As well as safely and reliably supplying energy and other hydrocarbon products to consumers across Australia, ExxonMobil Australia's contributions to Federal tax and royalty receipts have been significant. Per our annual statement (see attached) under the Australian Taxation Office's voluntary tax transparency code, since 1990, when Petroleum Resource Rent Tax (PRRT) was first applied to the Gippsland Basin, we have paid over A\$13 billion. When income tax is included, an average of more than \$600 million has been paid to the Federal Government each year for over a quarter of a century.

Our community contributions since the commencement of our operations have also been substantial, in excess of A\$1 million each year for the last seven years.

**Our contribution to Australia**

Esso Australia Resources Pty Ltd (Esso) is the operator of the GBJV, which is a 50/50 Joint Venture with BHP Billiton Petroleum (Bass Strait) Pty Ltd. Despite over 50 years of production, our Longford plants and 23 offshore platforms and installations and over 600 kilometres of underwater pipelines continue to supply approximately 40 per cent of eastern Australia's domestic gas needs.

Modelling from ACIL Allen (attached) shows that the contribution to the economy from the GBJV has improved the real income of all Australians by A\$640 billion and contributed an average of 2.5% of all Commonwealth tax receipts – making it one of the largest Commonwealth revenue sources in history.

From when the GBJV started, over fifty years ago, to 2016 it has paid over A\$80 billion in excises, royalties and taxes, in nominal terms.

**Our investments in Australia's energy future**

Over the past decade we have continued to invest significant amounts into our Gippsland Basin operations.

With our joint venture partners we have invested over A\$5.5 billion in the Kipper Tuna Turrum project<sup>1</sup>. This project is the largest single investment, ever, in Australia's domestic gas market. It has helped to access 1.6 trillion cubic feet of gas and offset declines in our mature Gippsland fields.

We have also invested A\$400 million in the 187 kilometre Longford Liquids Pipeline which will help keep crude oil, and associated gas flowing to the nation. Earlier this year we also reached Final Investment Decision on the A\$400 million West Barracouta project which will bring additional gas supply to the domestic market.

ExxonMobil also has a 25 per cent interest in the A\$60 billion Gorgon project, one of the world's largest natural gas projects, and the largest single resource development in Australia's history.

Our downstream operations conducted through our Mobil brand, are the single biggest source of our revenue in Australia.

We own and operate the Altona refinery in Melbourne, which is a major supplier of Victoria's fuel needs. It processes crude oil into petrol, diesel, jet fuel and liquefied petroleum gas. Mobil also sells imported finished product in markets across Australia.

Our Mobil business has also invested significantly to help maintain Australia's liquid fuel security future, through technological capital infrastructure at our Altona Refinery in Victoria. This investment increased refining capacity by 10,000 barrels per day, from 80,000 to 90,000 barrels.

We have also invested significant amounts to improve the supply of jet fuel to Melbourne Airport, including the construction of two new 12.5 million litre tanks.

In addition to this we also operate a network of distribution terminals, including Yarraville in Victoria, Birkenhead in South Australia and Silverwater in New South Wales. These terminals distribute a variety of petroleum products including petrol, diesel, jet fuel and heating oil.

In closing, we thank the Committee for this opportunity to highlight the significant investment the company has made and continues to make in Australia. We have always been strong supporters of the oil and gas industry in Australia and will continue to be so.

Yours faithfully

**Nathan Fay**  
Chairman  
ExxonMobil Australia Pty Ltd

Encl.

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<sup>1</sup> ExxonMobil has a 32.5 per cent interest in the Kipper project

# About the Gippsland Basin Joint Venture

The Gippsland Basin Joint Venture (GBJV), in which Esso Australia Pty Ltd and BHP Billiton Petroleum (Bass Strait) Pty Ltd each have a 50 per cent interest, is one of the most enduring partnerships in Australia's corporate history. This significant partnership began in 1964, with Esso Australia as the operator for oil and gas exploration off Victoria's Gippsland coast.

The GBJV drilled its first well in February 1965 and was Australia's first major offshore oil and gas well. That well and the offshore facilities that followed have supported production of some **4.7 billion barrels of oil and 8 trillion cubic feet of gas**.

In 1970, the then Prime Minister of Australia, Sir John Gorton described the Joint Venture as "an example of co-operative development" that could serve as a blueprint for undertaking risky, complex projects for mutual benefit.

*"Great risks had to be taken in order to bring this to fruition. ... The risks were equally shared between an Australian and an American company. The rewards are not so equally shared. Because close to 50 per cent of profits made, rewards gained, flow directly to the Australian people in the form of company taxation or royalties or other payments. That silent partner gets that at once."*

Sir John Gorton

The result was a resources boom that transformed the Australian economy and helped to fund our much heralded social innovations through the '70s and '80s. In the half century since the first discovery, **investments of around \$32 billion** in real terms has funded infrastructure including 23 offshore facilities feeding a network of about 600 kilometres of pipelines.

The GBJV truly is a partnership that changed the nation with the discovery of the world-class Bass Strait oil and gas fields and created long-lasting benefits that have shaped Australia's economic prosperity.

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## ECONOMIC CONTRIBUTION

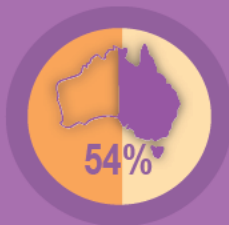
Between 1967 and 2015, the GBJV has contributed:

- Production of 4.7 billion barrels of oil and 8 trillion cubic feet of gas.
- Generation of gross revenues of over \$144 billion (over \$330 billion in 2016 terms).
- More than \$89 billion of payment in Australian excises, royalties and taxes (over \$220 billion in 2016 terms).
- On average around 1,000 workers per year have been directly employed.
- More than \$12.9 billion of ongoing operations expenditures (\$31 billion in 2016 terms).
- \$10.7 billion of capital works (\$32 billion in 2016 terms).

Over its life to date, the project has:

- Produced 54 per cent of all of Australia's crude oil and liquids.
- Supplied over 40 per cent of all of Eastern Australia's natural gas.
- Contributed an average of 2.5 per cent of all Commonwealth Government tax receipts (with an average of 10 per cent a year over the ten years between 1976 and 1985).
- Added \$570 billion to the Gross Domestic Product of Australia (\$11.6 billion per year).
- Improved the real incomes (or economic welfare) of Australian residents by more than \$640 billion (or \$13.1 billion per year) or \$780 per person per year.
- Stimulated nearly 370,000 full time equivalent (FTE) job years of employment throughout Australia.

## Between 1967 and 2015 the Gippsland Basin Joint Venture has...



Produced more than half of Australia's crude oil and hydrocarbon liquids.



Provided enough fuel to fill every car currently on the road in Australia 500 times.



Provided enough gas energy to power the MCG's lights for 3.3 million years.



Improved the real income of Australians by more than \$640 billion. That is \$780 per year for every person in this country.



Contributed an average of 2.5% of all Commonwealth Government tax receipts. That is over \$220 billion (in 2016 terms), making it one of the largest Commonwealth revenue sources in history.



Paid the equivalent of 18% of total private and public hospital expenditure.

# ExxonMobil Australia – Tax Facts

The ExxonMobil Australia group of companies (ExxonMobil Australia) has been operating in Australia since 1895.

With a total investment of more than \$21 billion since 2010, of which 85 per cent has been invested over the past six years, we are a substantial investor in the Australian economy and a major contributor to the wealth of the nation.

We employ more than 1,500 people directly across our business, and many thousands more working indirectly through our contractors and suppliers that support our operations.

Each year, we pipe thousands of millions of cubic feet of gas, extract and refine millions of barrels of oil and store and transport billions of litres of fuel to help meet the community's energy needs.

## Paying our fair share

Over  
**\$13b**

in Petroleum Resource Rent  
Tax paid since 1990

Since 1990, when Petroleum Resource Rent Tax (PRRT) was first applied to the Gippsland Basin, ExxonMobil Australia has paid over \$13 billion in this tax alone.

When income tax is included, on average more than \$600 million has been paid to the Federal Government each year for over a quarter of a century.



ExxonMobil Australia continues to be in an income tax loss position in the short term as the Australian operations recover the recent significant capital investments in long-lived producing assets.

Through these investments, ExxonMobil Australia continues to contribute to Australia's economic wellbeing by creating jobs, investing in the future and bringing reliable supplies of energy to help fuel growth.

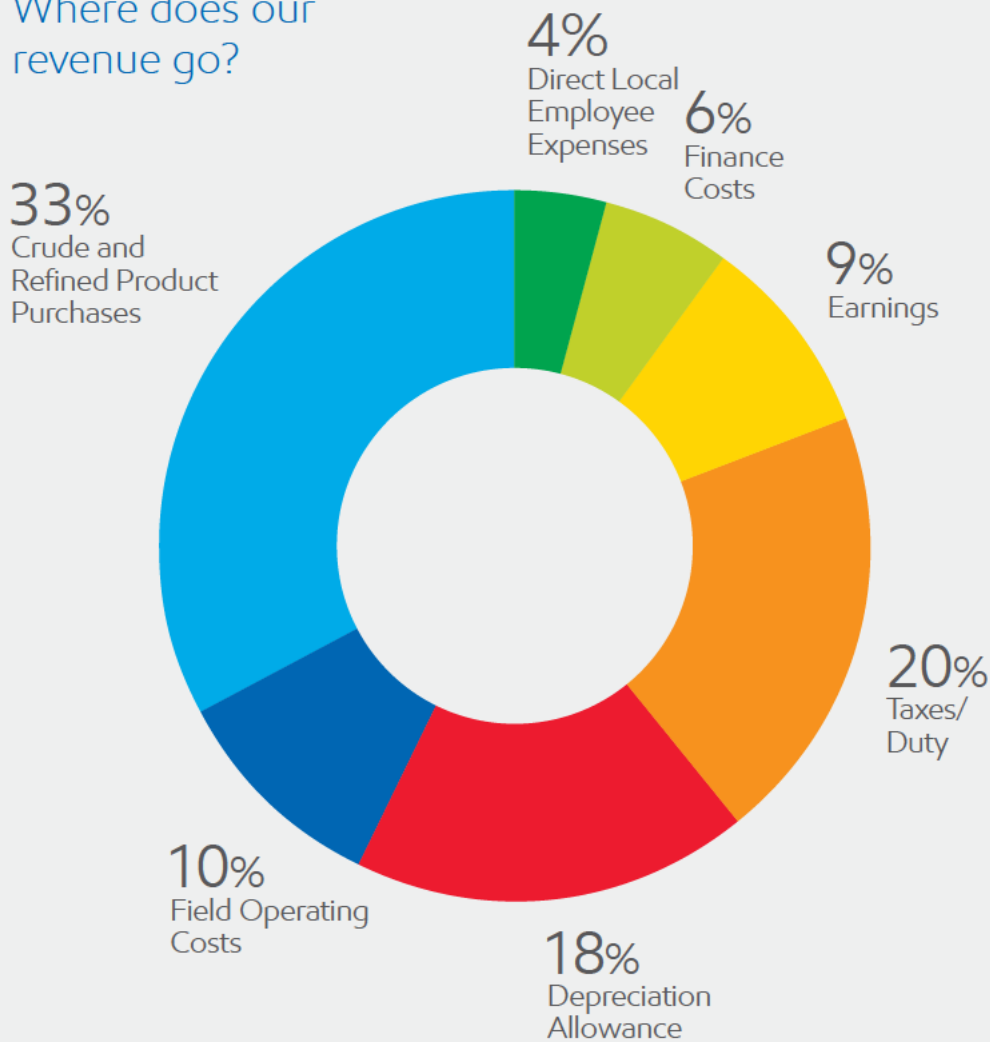
ExxonMobil Australia also pays a range of other taxes annually, for example in 2017 we collected or paid:

Excise	\$2,047m
GST	\$547m
PRRT	\$366m
Interest Withholding Tax	\$56m
Payroll Tax	\$23m
Fringe Benefits Tax	\$19m
Local Government Rates	\$12m
Land Tax	\$4m

**Our investments will continue to benefit the Australian economy**

ExxonMobil Australia's investments in Australian oil and gas projects, include investments in the Kipper Tuna Turrum project in the Gippsland Basin, as well as the Chevron operated Gorgon project in Western Australia, of which ExxonMobil is a 25 per cent joint venture participant. As these multi-billion investments were completed in 2017 and have started production, the amount of tax paid by ExxonMobil Australia is anticipated to increase significantly. Over the next decade, the total tax payable is projected to be in the billions of dollars.

Where does our revenue go?



In 2017, ExxonMobil Australia had revenue of more than \$10 billion. However, input costs alone for raw materials such as feedstock and refined product cost over \$3.6 billion, and when combined with the government excise payments of \$2.1 billion, this eroded 53 per cent of revenue before our Australian operations even commenced.

## Tax Strategy

In an average year, we pay over \$2 billion in total taxes.

As a large and high-profile taxpayer, ExxonMobil Australia holds a documented, longstanding reputation with tax authorities for integrity and professionalism, and we have an open and ongoing dialogue with the ATO and other revenue authorities. We file our returns in an accurate and timely manner and stand behind our return positions.

We are continually investing substantial capital in exploring, developing and producing oil and gas as well as refining, distributing and marketing refined products. In addition, ExxonMobil Australia manages its operations by buying new assets and selling pieces of existing businesses that may be worth more to other parties. In each case, we will work to ensure that the correct amount of tax under the law is paid on each of those transactions.

## International Related Party Dealings

Over the last four years, the vast majority of our international related party dealings were with affiliates in Singapore, the USA, and PNG. These dealings are predominately for the sale and purchase of refined product and raw materials, the provision or receipt of services, and the cost of financing.

## Refined Product and Raw Materials

- ExxonMobil Australia purchases crude oil for use in its Altona refinery and refined product for sale in the Australian market from affiliated companies based in Singapore and the USA. These products are globally traded with transparent market prices, and the prices ExxonMobil Australia pays closely match what an independent purchaser would pay for the same products.
- ExxonMobil Australia sells crude oil, condensate and LPG through the same Singapore and US companies.
- In 2017, the fee paid to the Singapore affiliate for arranging the sale and purchase of crude oil and refined product was around \$4 million and represented less than 0.25 per cent of the value of the transactions.
- ExxonMobil's pricing of inter-affiliate sales and purchases of crude oil and refined product is subject to intensive, ongoing scrutiny by revenue authorities around the world and historically, no adverse findings have been made.

## Services

- The largest single dealing in services is with our affiliate in PNG, for whom ExxonMobil Australia has both provided services and contracted services, thereby bringing revenue into Australia for taxation purposes.
- While ExxonMobil Australia procures services from affiliates in other countries, this is done on an arm's-length commercial basis with prices at or below what could be achieved on the market.
- Further, the total expense incurred from ExxonMobil Australia procuring services is less than the revenue gained from ExxonMobil Australia providing services, creating a net tax revenue benefit for Australia.
- ExxonMobil believes that the global integration of its business lines and functional organisations allows it to capture significant value across the supply chain.



## Finance

- ExxonMobil Australia has historically held very low levels of finance primarily for working capital purposes. Due to the significant ramp up in capital spend (\$21 billion since 2010), we have required borrowings to fund this investment.
- ExxonMobil Australia is financed by a mixture of shareholders equity, related party debt, and internal capital.
- The related party debt is predominately term debt denominated in Australian dollars and owed to US incorporated affiliates.
- While debt has increased over the last six years during a period of significant investment, we also continued to inject billions of dollars of long-term equity into Australia.
- With production recently commencing from this investment, we have now commenced paying down these loans.
- Following a review of financing structures and related party loan pricing, on 3rd April 2018 the Australian Taxation Office issued an amended income tax assessments to ExxonMobil Australia Pty Ltd for the 2010 and 2011 income years, which may also have implications for the 2012 to 2017 income years. We stand by the pricing of our loans. Resolution of the amended returns may require negotiations extending over a number of years.
- ExxonMobil Australia withholds and remits interest withholding tax at a rate of 10 per cent on interest accruing on these loans. Withholding tax is paid to the ATO at least quarterly.

## Tax Reconciliations

### Reconciliation of Accounting Profit to Income Tax Expense

#### (a) Numerical reconciliation of income tax expense to prima facie tax payable <sup>1</sup>

Profit / (loss) from continuing operations before tax	841
PRRT benefit / (expense)	632
Profit / (loss) after PRRT expense from operations	1,474
Tax at the Australia Tax Rate of 30%	442
Tax effect of amounts which are not deductible (taxable) in calculating taxable income	-
Overseas tax differential	60
Sundry items	(11)
	491
Under / (over) provision in prior years	(7)
Total income tax expense / (benefit)	484
PRRT expense / (benefit)	(632)
Total tax expense / (benefit)	(148)

### Income Tax Expense to Income Tax Payable

#### (b) Numerical reconciliation of tax expense / (benefit) reported to tax payable (receivable)

	Income Tax	PRRT	TOTAL
<b>Total tax expense / (benefit) reported in ExxonMobil Australia (EMA) 2017 consolidated profit and loss statement</b>	<b>484</b>	<b>(632)</b>	<b>(148)</b>
Global Effective Tax Rate <sup>2</sup>	33%		
Less: Tax expense / (benefit) recognised by entities in foreign tax jurisdictions	216		216
<b>Tax expense / (benefit) relating to entities within ExxonMobil Australia tax group</b>	<b>268</b>	<b>(632)</b>	<b>(364)</b>
Australian Effective Tax Rate <sup>2</sup>	25%		
Less: Under / (over) provision in years prior to 2017	(3)		(3)
Add: Under / (over) provision in 2017	27		27
Effects of timing differences between accounting recognition and assessability/ deductibility for tax purposes			
PRRT (mainly arising from capital expenditure deductions)	(304)	1,014	710
Accelerated tax depreciation	(181)		(181)
Unrealised foreign exchange gains	(128)		(128)
Defined benefit liabilities	(49)		(49)
Site restoration	18		18
Other	50		50
<b>Tax payable/(loss carried forward) arising from 2017 <sup>3</sup></b>	<b>(295)</b>	<b>382</b>	<b>86</b>

<sup>1</sup> As reported in 2017 EMA Consolidated Financial Statements, Note 5(b)

<sup>2</sup> Accounting income tax expense as a percentage of: accounting profit / (loss) before income tax but after PRRT expense

<sup>3</sup> Per EMA tax group 2018 consolidated corporate income tax return and PRRT returns