

File no.: DEMC19/00299



**Government
of South Australia**

Department for
Energy and Mining

Mr Mark Fitt
Committee Secretary
Senate Economics Legislation Committee
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Mr Fitt

On behalf of the South Australian Department for Energy and Mining (DEM) thank you for the opportunity to contribute to the Inquiry into Treasury Laws Amendment (2019 Petroleum Resource Rent Tax Reforms No. 1) Bill 2019.

Attached to this letter is the DEM submission to the Inquiry for the Committee's consideration.

Yours sincerely

Mr Barry Goldstein
Executive Director, Energy Resources

18 March 2019

Attachments 1: Submission by the South Australian Department for Energy and Mining to the Treasury Laws Amendment (2019 Petroleum Resource Rent Tax Reforms No. 1) Bill 2019

ENERGY RESOURCES DIVISION

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Attachment 1

Submission

1. Introduction

- 1.1 The South Australian Department for Energy and Mining (DEM) welcomes the opportunity to contribute to the inquiry into Treasury Laws Amendment (2019 Petroleum Resource Rent Tax Reforms No. 1) Bill 2019.
- 1.2 This submission is focussed on the removal of onshore projects from Petroleum Resource Rent Tax (PRRT) regime which will come into effect from 1 July 2019.
- 1.3 South Australia, as do other jurisdictions, relies on investments including the significant contribution of foreign investors to develop our natural resources, and it is vital that in a global market Australia is recognised and seen as a stable investment destination with a fair and competitive tax regime.
- 1.4 The amendments will impact on future exploration decisions in Australia. Onshore exploration in the Northern Territory, South Australia, Queensland and New South Wales is vitally important to ensure households and industries in the east coast domestic market are adequately supplied.
- 1.5 A transitional provision in the legislation is sought with a 5 year sunset period for the expiry of existing exploration credits.

2. Onshore petroleum projects

- 2.1 South Australia is the base for three Oil and Gas entities with onshore and offshore petroleum PRRT projects. The Bill to cease PRRT to apply to onshore petroleum projects from 1 July 2019 impacts on South Australian PRRT entities.
- 2.2 DEM supports most aspects of the bill including the prospective removal of the onshore projects, however the drafting also retrospectively removes accrued un-deducted onshore exploration expenditure which is currently able to be carried forward and deducted against assessable PRRT receipts within a wholly owned group of companies.
- 2.3 Santos Ltd, a South Australian based company, is likely the most affected entity in all of Australia by the 'retrospective' nature of some of the changes given its significant investments and focus in onshore oil and gas exploration. We are not aware of any other Australian company with a significant onshore program and also a growing offshore program that will be as impacted by some aspects of the proposed changes.
- 2.4 Whilst large offshore explorers will be able to continue to deduct their offshore exploration activities in later years to minimise the PRRT payable, an aspect of the proposed

amendments will retrospectively impact only PRRT companies with onshore operations. When decisions to invest in projects are made, apart from the commercial considerations, the decision would assume a stable and consistent regulatory regime governing the requirements and obligations of the companies making the investments. It may well be argued a change perceived to have a retrospective impact affecting the economics and financial position of a project on economic grounds may not have been made had such conditions been known.

- 2.5 The loss of carried-forward un-deducted eligible exploration expenditure will have an impact on SA entities, in particular Santos Ltd that will likely result in a significant write-off in their financial statements over the next financial year.
- 2.6 DEM notes the simplification measure to remove the regulatory burden associated with the PRRT for onshore petroleum projects.