

20 February 2017



Mr Michael Callaghan
PRRT Review
The Treasury
Langton Crescent
PARKES ACT 2600

Email: prrtreview@treasury.gov.au

Dear Mr Callaghan

The Chamber of Commerce and Industry Western Australia (CCI) thanks you for the opportunity to make a submission to the Review of the Petroleum Resources Rent Tax (Review). CCI is the peak body representing employers in Western Australia. We represent more than 9,000 small, medium and large businesses, not for profits and government enterprises across the spectrum of the State's economy and from all regions of WA. Our vision is for Western Australia to be a world-leading place to live and do business.

CCI supports the comprehensive submission made to this Review by the Australian Petroleum Production & Exploration Association (APPEA) regarding the operation of the Petroleum Resource Rent Tax (PRRT). It clearly outlines the history and rationale of the establishment of the tax and subsequent alterations, providing fundamentally important context for why provisions are designed in particular ways to attract multi-billions of dollars in petroleum investment. By virtue of the benefit of petroleum production and exploration to the state of Western Australia, CCI and APPEA are often aligned on a number of fundamental positions relating to petroleum production and exploration. This includes the Commonwealth Treasury's current review of the PRRT.

The PRRT has been in operation since the 1980s, when the Federal Government embarked upon introducing a more efficient profit based tax for petroleum production. Covering offshore projects initially, and extending to the Bass Strait and then all production in 2012, the tax has operated across a time when unprecedented investment has entered Australia. Detractors of the tax commonly cite that it does not generate sufficient revenue for the Government, with particular focus on deductible compounded expenditure.

However, this analysis does not appreciate the high-risk nature of petroleum investment, nor does it recognise that exploration and production would not otherwise occur but for a competitive system that attracts international capital, bringing with it the creation of tens of thousands of jobs and the subsequent economic benefits.

Western Australia is a natural gas state. It is home to the recent wave of investment in new LNG facilities, and natural gas underpins the State's electricity network and manufacturing sector. The operation of the PRRT – in its balance of attracting capital and providing appropriate returns to the Government for resource development – has a noticeable and critical impact on the Western Australian economy. Changes to the PRRT that would deter investment in exploration and production activities is of serious concern to CCI and its members, the WA business community.

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Over the past decade, Western Australia has experienced a period of economic expansion unlike any other in its history, underpinned by energy and resources. This includes the construction of mega LNG projects that are making Australia a global LNG force. Australia also has an interest in attracting and developing the technological know-how that will change the sector into the future. For example, floating LNG represents a significant opportunity for Western Australia to be at the forefront of an emerging technology that could prove pivotal to the world's future energy supply, and unlock previously stranded gas. This presents an opportunity to develop gas reserves in more difficult conditions and further from major centres.

In 2015-16, the petroleum sector was worth \$18.4 billion and accounted for 21 per cent of total mineral and petroleum sales.¹ The investment that led to such value creation – tallying more than \$120 billion in Western Australian LNG facilities alone in the past 10 years - has had a powerful multiplier effect throughout the State. For example, at the height of petroleum and resource investment in the State, Western Australia was the fastest growing State welcoming around 1,500 people each week, its gross domestic product growth was two-thirds higher than the national rate, and in the ten years to 2013 household net wealth increased by 70 per cent in real terms. CCI believes Western Australia has the potential to build on the strength of this investment and subsequent economic activity to be a world-leading global minerals and energy resources hub. This would be a significant boon for both the state and national economies, both in terms of the improved ability to develop our own resources and also the revenue and wealth that is generated by exporting associated services and technology.

Companies have made investments and calculated project and exploration costs and investor returns based in good faith on existing rules and regulations. Retrospective application adversely affects these companies, and sends a worrying signal about the predictability and continued attractiveness of Australia's fiscal regime for investors.

Considerations of any changes to the tax system need to be holistic, not piecemeal, with a change in one area potentially creating unintended consequences in another. Indeed, it should be recalled the PRRT came into force to replace Commonwealth royalty systems, with a concerted effort to understand how to promote the development of petroleum exploration and production. In the case at hand, it appears there is no consideration of how new Government taxes or policies may be holding the industry back.

Conditions have moderated, and it is fundamentally important that elements of the tax regime that facilitated such investment in recent years (some \$200 billion nationally) are not detrimentally affected. We should be considering ways to capture investment for project expansions, exploring new fields, and developing new projects, rather than making it more difficult to do business. The petroleum sector is going through a challenging period, with both flat demand and new supply leading to moderating prices. An indicator of these challenges is exploration activity – in Western Australia, exploration spend fell from \$2.1 billion in 2014-15 to \$1.3 billion in 2015-16.² With less capital available for new projects, jurisdictions must remain competitive to attract investment and not introduce changes that make investment less attractive.

Australia must retain policy settings to attract global capital and ensure it remains an attractive place to invest for large resource companies that have the scale and financial resources to develop our common resources. Purported changes need to be cognisant that, although Australia has a number of advantages, it is a high cost investment destination and particularly in offshore Western Australia, remote fields come at a high cost to explore and develop.

¹ Department of Mines and Petroleum, 2015-16 Statistics Digest

² Department of Mines and Petroleum, 2015-16 Statistics Digest

Australia must compete with the global market to attract investment, and there is an increasing number of jurisdictions that can develop natural gas, including the United States, which quickly turned from an importer to an exporter. Attracting the next wave of investment will depend on ensuring Australia remains competitive. This includes a competitive tax system, which is a key input into the economic attractiveness of a project and investor returns. The need to develop petroleum resources will clearly continue, with global energy demand expected to increase by one-third by 2035, with natural gas as an alternative cleaner fossil fuel being a key component of this.

An optimal tax regime must ultimately recognise investor risk and attract investment, be stable and predictable, and provide an appropriate revenue stream to the State. The historic operation of the PRRT has demonstrated that it strikes this balance.

If you require any further information or would like to discuss CCI's submission in more detail, please do not hesitate to contact Joe Doleschal-Ridnell, National Policy Adviser on 0419 901 731 or joe.doleschal-ridnell@cciwa.com.

Yours sincerely

A handwritten signature in black ink that reads "Deidre Willmott". The signature is written in a cursive, flowing style.

Deidre Willmott
Chief Executive Officer