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Principal Advisor
Corporate and International Tax Division
The Treasury
Langton Crescent
PARKES ACT 2600

14 June 2019

Review of the PRRT Gas Transfer Pricing Arrangements – Submission

Dear Sir/Madam

Japan Australia LNG (MIMI) Pty Ltd (“MIMI”) appreciates the opportunity to comment on the Review of the PRRT Gas Transfer Pricing arrangements (“the Review”) announced by the Government on 2 November 2018.

The following submission comments on the Consultation Paper issued by your office in April 2019.

Introduction

MIMI is an Australian-resident company established in 1985 as a 50-50 joint venture between Mitsubishi Corporation and Mitsui & Co., Ltd. MIMI was incorporated in 1985 and its head office is located in Perth. MIMI holds a 16.67% interest in the North West Shelf Project, located off the north-west coast of Western Australia. MIMI also holds a 14.4% interest in the Browse Project, a prospective LNG project.

North West Shelf

The Woodside-operated North West Shelf (NWS) Project facilities constitute Australia’s largest oil and gas development and represent an investment of more than \$34 billion.

Accounting for more than one third of Australia’s oil and gas production, the NWS Project is a joint venture between six major international companies. It is one of the world’s largest 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.

For over 30 years, the NWS Project has been Western Australia’s largest producer of domestic gas. 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 has

delivered more than 4000 LNG cargoes since 1989. The NWS Project also produces LPG, oil and condensate, a light crude oil for international energy markets.

The NWS Project is widely regarded as Australia's iconic resources project, and it has contributed a significant number of jobs, substantial investment, taxation revenue and economic growth over decades in our country.

As the Project has matured, new potential commercial opportunities, specifically the processing of third-party gas, have arisen, leading to the potential continued growth of the LNG industry in Australia.

The Project continues to provide for its future through investment in its existing and future expansion activities. A stable and transparent fiscal environment has facilitated that contribution.

Browse

The Browse resources are located in the Browse Basin, located offshore approximately 425 km north of Broome in Western Australia. Reserves are estimated at 14 Tcf of gas and 390MMbbl of condensate.

Following the completion of front-end engineering and design (FEED) work in 2016, the BJV participants decided not to progress further with the development concept selected at FEED entry.

However, in 2018 the BJV participants commenced the concept definition phase based on a Browse to NWS Project development concept. The project will produce gas offshore via two FPSO facilities and deliver that gas through an approximately 900 km pipeline to existing NWS infrastructure, producing around 10 Mtpa of LNG/ LPG and 1.4 Mtpa of domestic gas.

As the BJV participants continue to evaluate the feasibility of the Browse project, a stable and reliable fiscal structure is essential in managing economic risks to the project.

Comments on the Consultation Paper

MIMI's views on the Review in the context of its projects are detailed in the submission made by the Australian Petroleum Production & Exploration Association (APPEA). MIMI has had input into, and fully supports, that submission.

MIMI's views more generally on the Review as it relates to LNG investment are as follows:

- a) The gas transfer pricing arrangements are working as intended, and accordingly MIMI does not consider any changes are required. The considerable work undertaken by industry, the Australian Taxation Office and the Department of Industry, Science and Resources in 2005 determined that the residual profit

methodology is an appropriate and equitable mechanism for determining the gas transfer price;

- b) The risk sharing and interrelationship of the upstream and downstream portion of integrated projects is a key characteristic of LNG production. The gas has limited commercial value without access to a market, and the significant operational excellence and intellectual property brought to the downstream portion of LNG production creates the opportunity to market that gas (via liquefaction). Conversely, the processing operations are worth little without a significant and reliable source of feedstock gas;
- c) The application of established transfer pricing concepts indicates that there are no comparable uncontrolled prices in the market for LNG feedstock gas, and no modifications to other prices that would allow meaningful comparison;
- d) The current low PRRT receipts are due to the both the relatively low commodity prices in recent years, and the early stage of the lifecycle of many of Australia's LNG projects, and not due to an inappropriate gas transfer price mechanism;
- e) The benefits of oil and gas development in Australia should not be solely viewed through a petroleum tax revenue lens; and
- f) A stable and neutral taxation regime is essential to encourage development of resources by allowing a return on investment commensurate with the risk of exploration and development. Adverse fiscal regime changes may discourage already challenging projects to remain undeveloped. MIMI is particularly keen to ensure that changes to the PRRT regime do not risk the economic viability of the Browse project.

MIMI looks forward to continuing to work with the Review team as part of this process, and would welcome any opportunity to discuss the issues associated with the Review and its application to its projects.

If you have any questions regarding this matter, please contact Angus Samson on



Regards

A handwritten signature in blue ink, appearing to read 'Kota Yamada'.

Kota Yamada
Chief Executive Officer